

Support to the Contract Management Unit of the Greater Johannesburg Metro Council

Progress Report No. 2

30 September, 2002

Authors:

Philip Giantris
David Keith
Thelma Triche

Prepared by:

PADCO, Inc.
1025 Thomas Jefferson Street, NW, Suite 170
Washington, DC 20007
USA

Phone: 1.202.337.2326
Fax: 1.202.944.2351
Email: padco@padcoinc.com

Prepared for:

USAID/South Africa
Joy Ndwandwe, CTO/SO# 6 Project Officer
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Support to the Contract Management Unit
of the Greater Johannesburg Metro Council

DISCUSSION DOCUMENT ON CMU AND SHAREHOLDER SPLIT
PREPARATION FOR CMU WORKSHOP

DISCUSSION DOCUMENT ON CMU AND SHAREHOLDER SPLIT

PREPARATION FOR CMU WORKSHOP

1 Introduction

The MC has recently approved the split of the shareholder function and CMU function. The decision has raised several issues that the CMU must resolve in order to implement the approved structures of the CMU and shareholder. It is intended that the workshop resolve all of the issues in order to initiate implementation thereof.

The intention here is to highlight as many issues as possible and also give recommendations in order to speed up the process at the workshop. Please note that the recommendations are for debate and should not be seen as cast in stone.

2. Issues Requiring Attention

2.1 Delegations

Responsibility for driving the shareholder process forward. A clear mandate must be given to a responsible official to drive the shareholder process forward. Although the decision to split the CMU and shareholder roles the CMU is still continuing the various functional responsibilities. It is imperative that a designated official is appointed to carry the respective tasks.

2.2 Unpacking the Functional Responsibilities

The shareholder roles performed by the CMU relate largely to governance and the business planning process. The entire governance functions need to be elucidated upon. Nylene to identify all the functions thus far indicating the urgency of each. The governance functions must be taken over by the Shareholder. The issue is how by whom and when. Nylene to decide on which functions she wants to focus on.

The business planning process is fast looming for the next financial year. This is a function to be performed by the Shareholder Unit. Riaz can take over this process immediately as he is deemed to be the person with the shareholder responsibility. The CMU as the regulator should receive the business plans as well and should scrutinise them. Any issues requiring attention to the business plan and is of a shareholder role should be taken up by the ED CMU with the Head of Shareholder Unit.

Another function performed by the CMU is that of attendance at Board meetings. This is a shareholder role. As a regulator staff should not be allowed to sit on the Boards. The essence of splitting up the roles is exactly this issue. The timing as to when staff allocated to the CMU should remove themselves must be agreed to at the workshop.

2.3 New CMU functional responsibilities

The job descriptions of the various directorates in the CMU must be discussed in order to get clarity on the exact functional roles. Copies have been attached and were sent to staff earlier. These job descriptions were developed by the consultants.

The workshop should spend a good deal of time examining each of the new CMU directorates to ascertain the work stream and appropriateness. It should also indicate the staffing skills and numbers required. A critical functional responsibility across all 3 directorates is that of monitoring and evaluation. The CMU should develop a list of all things that must be monitored and evaluated at the workshop as a starting point.

The roles and relationships between departments must also be finalised especially Planning and environment, finance, shareholder and any others.

2.3 Unpacking the Administrative Structures

Arising from the above, staff within the CMU are obviously affected. Riaz is deemed the acting shareholder person and is likely to take his staff with him. This will leave a gap in the CMU which requires the basic finance admin skills. A person will be needed to carry out these responsibilities in the CMU.

The executive have been appointed to the old structure. The CMU has defined three new directorates. The allocation of staff to the Directorates Contract Management and Technical Research and Tariff must be finalised at the workshops so that staff are not left feeling uncertain. It would appear that staff are already aligning themselves to particular directorates. There is an opportunity to place staff correctly in terms of the respective skills. It is envisaged that interviews between respective staff be conducted and the Ed: CMU decide on the appropriate placement. There is potential for staff to also be allocated to the shareholder function as well. The good thing though is that staff will be placed into specific functional responsibilities after negotiation.

Another important area is that of office space. This will be a problem for the CMU in that additional space would be required for staff members. It is imperative that the location of the shareholder and CMU is not too far from each other. Peter managed the office arrangements previously and therefore he could be requested to assist further.

Office space relates to staff numbers, it is important that the CMU determine at the workshop the optimal number so that an appropriate venue/location is obtained.

Very importantly the workshop must indicate responsibility to a person regarding all future appointments in the CMU so that this process can be initiated immediately. New staff should be appointed by no later than three months from the conclusion of the workshop

2.4 Unpacking reporting roles

The reporting roles appear to be easy to define once the split is sorted out. However, it is argued that the quarterly meetings whilst largely within the domain of the shareholder also include that of compliance matters. The compliance issues must be identified so that a format on reporting can be developed.

2.5 Budgetary Provision

Transitional issues must be addressed iro the budget. Mankodi to provide funding for shareholder function and any increments required by the CMU.

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PADCO EXPERT ADVISORY TEAM PRESENTATION MATERIALS

**CMU WORKSHOP
SEPTEMBER 2002**

MEMORANDUM

To:

Phindile Nzimande	-	CMU
Prem Govender	-	CMU
Peter Coetzee	-	CMU
Riaz Hassim	-	CMU
Nolene Morris	-	CMU
Ian Davies	-	CMU
David Keith	-	US-Aid
Thelma Triche	-	US-Aid
Joy Ndwandwe	-	US-Aid
Philip Giantris	-	US-Aid
Tammy Campbell	-	Resolve Group
Jackie Huntley	-	Huntley Mdlulwa Inc.
Richard Payne	-	3P Consulting
George Fosu	-	PWC
James Aiello	-	PWC
Ibrahim Khan	-	Wizcor

FROM: FLORENCE MNISI

DATE: 27 AUGUST 2002

SUBJECT: CMU WORKSHOP
10 – 13 SEPTEMBER 2002 AT THE MISTY HILLS COUNTRY HOTEL

You are cordially invited to attend a CMU workshop, which has been scheduled and confirmed from 10 – 13 September 2002 at the Misty Hills Country Hotel in Muldersdrift. The workshop programme will be forwarded to you in due course.

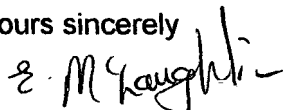
Reservations for accommodation have been made only for the CMU staff, USAID and Resolve Group consultants. Details are as follows:

Arrive on 10 September at 18h00 (dinner reservation has been made)
Depart on 13 September at 15h00

Consultants from Huntley Mdlulwa, 3P, PWC and Wizcor are invited to attend only on Friday 13 September 2002.

Your attendance to be confirmed with Elize McLaughlin at 407-6501 or e-mail elizem@joburg.org.za

Yours sincerely



FLORENCE MNISI
MANAGER: LIAISON

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Strategic Plan for Contract Management Unit & Shareholder Unit

City of Johannesburg
PADCO Inc./USAID
Misty Hills Retreat
11-13 September 2002

Background of USAID Technical Assistance to CMU

- Development of issues and options
- Draft functional analysis and implementation strategy
- Advise on strategic plan & reorganisation

Objective of Presentation

- Present PADCO-prepared suggestions on the Strategic Plan parameters.
- Facilitate brainstorming with CMU/SU senior staff on each of the Strategic Plan parameters
- Attempt to achieve consensus on the wording of the Strategic Plan parameters
- Propose a way forward for the restructuring of CMU/SU



Strategic Plan Parameters

- Short description of the Unit
- Vision
- Mission
- Strategy
- Focus of Activity
- 2002/03 Objectives
- Challenges
- Organisation Structure
- Funding
- 2002/03 Transition Path



Short Description

- CMU

- A unit of CoJ, reporting to City Manager, representing the interests of CoJ, as client, and the interests of consumers through mechanisms such as service delivery agreements with municipal-owned and privately-owned entities.

- SU

- A unit of CoJ, reporting to City Manager, representing CoJ's interests as shareholder in municipal-owned entities, through mechanisms such as corporate governance framework and shareholder compacts.

Vision

- CMU

- To be regarded by Council and consumers as a world-class municipal services contract negotiation and performance fulfilment unit.

- SU

- To be regarded as a world-class public asset management unit.

Mission

- CMU
 - To ensure that good quality, affordable, efficient municipal services are delivered to consumers, consistent with government policies and appropriate standards.
- SU
 - To maximize shareholder value in the interests of the community by preserving capital and ensuring the maintenance and development of infrastructure and the financial viability of municipal-owned entities.

Strategy

- CMU
 - Formulate, negotiate and ensure fulfilment of service delivery agreements designed to achieve mission.
 - Facilitate formation of public-private and public-public partnerships for the delivery of services
 - Develop permitting, licensing and consents regime as it relates to the mission.
- SU
 - Formulate corporate governance framework designed to achieve mission.
 - Negotiate and ensure fulfilment of shareholder compacts.
 - Facilitate development of policy and communicate to Boards of Directors of municipal-owned entities.
 - Act through Boards.

Focus

- | | |
|---|---|
| <ul style="list-style-type: none"> • CMU <ul style="list-style-type: none"> – Service delivery – Tariffs – Key performance indicators – Licences, permits and consents – By-laws | <ul style="list-style-type: none"> • SU <ul style="list-style-type: none"> – Corporate governance & risk management – Financial viability of municipal-owned entities – Capital allocation – Shareholder business strategy – Social responsibility |
|---|---|

2002/03 CMU Objectives

- | | |
|---|--|
| <ul style="list-style-type: none"> – Set organization design, complete staffing, manage the change – Modify SDAs to remove shareholder elements – Determine tariff methodologies and procedures – Determine KPI standard-setting procedures – Develop contract management framework – Design and implement reporting, monitoring and evaluation processes – Develop performance contracting model – Facilitate promulgation of by-laws – Establish training plan – Determine authority for environmental KPIs | <ul style="list-style-type: none"> – Establish CMU negotiation & dispute resolution procedure – Integrate with City strategy – Improve coordination w/UACs & City dept's – Manage transition of SU – Finalise interface liaison, communication – Design & implement a permit and licence granting regime – Design a framework for future PPPs – Establish CMU admin/secretariat procedures – Establish service level agreements with City dept's – Develop a CMU internal tasking procedure – Develop a CMU expenditure procedure |
|---|--|

2002/03 SU Objectives

- Set organization design & complete staffing
- Develop governance framework
- Develop shareholder compacts
- Develop working process with UAC Boards
- Consolidate financial results and financial business plans of UACs into a consolidated portfolio model, as if a holding company
- Develop a capital investment allocation model, as if a holding company

Challenges

- CMU
 - Reconciling roles of client and regulatory authority
 - Educating councillors and consumers
 - Tariff methodology and process, given constraints of national government and bulk suppliers
 - Obtaining information from other CoJ units, e.g. call centre, planning
 - Budget, and source of funding
- SU
 - Starting up a new function and obtaining a budget (or other source of funding)
 - Establishing relationships with UAC Boards
 - Quantifying the City's social (non-financial) capital investment allocation objectives
 - Accountability among units of the CoJ

Organisation

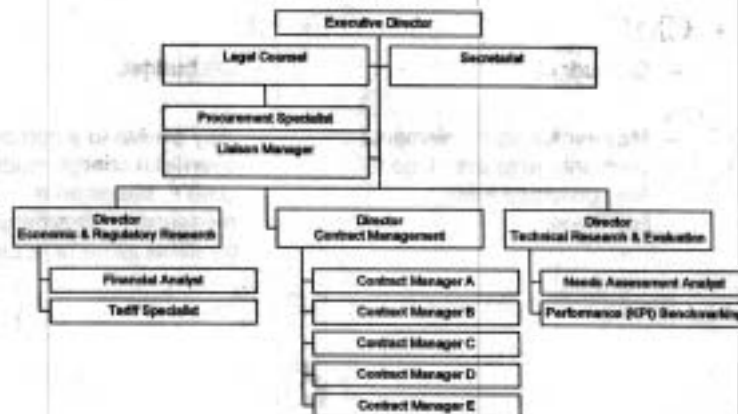
• CMU

- Contract management – line management of the process of negotiation and fulfilment of SDA's
- Economic research – determines tariff methodology, negotiates SDA tariffs, conducts economic and regulatory research, advises on SDA compliance
- Technical research – determines quality of service (and other) standards, negotiates SDA KPIs, conducts technical and operational research, advises on SDA compliance
- Legal – facilitates promulgation of by-laws, drafts contracts, advises on contract compliance, manages licensing regime, leads negotiations, manage dispute resolution regime

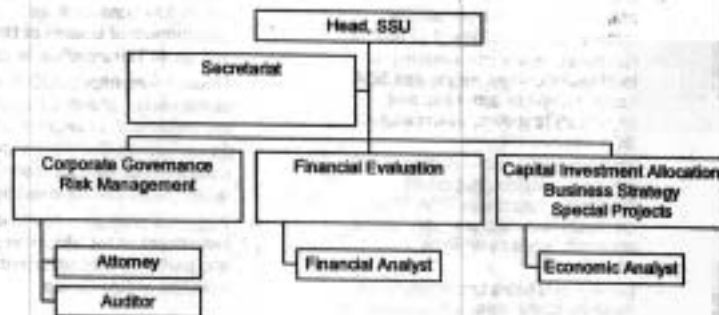
• SU

- Corporate governance – represents CoJ in functions such as appointment of Boards of Directors and annual shareholder meetings
- Finance – monitors UAC financial performance, ensures capital assets are preserved, arranges financing for UACs with CoJ ALCO, develops consolidated financial model, develop risk management policy
- Business strategy – develops investment asset allocation model, and performs strategic review and direction of CoJ Group

Suggested Organizational Structure of CMU



Suggested Organizational Structure of SU



Funding

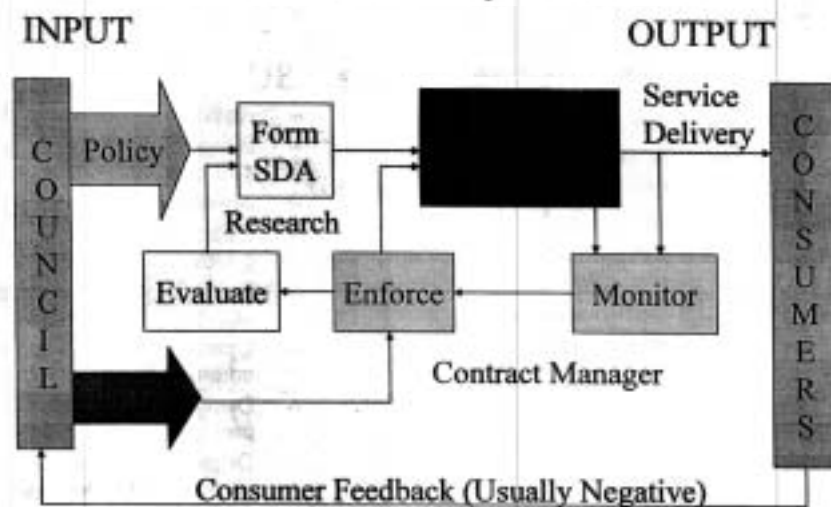
- | | |
|---|---|
| <ul style="list-style-type: none"> • CMU <ul style="list-style-type: none"> - On-budget. - May evolve some elements (authority role) over time to fees collected from licensees | <ul style="list-style-type: none"> • SU <ul style="list-style-type: none"> - On-budget. - May evolve to a corporate overhead charge made to UAC's, based on a measurable parameter such as asset value or revenue |
|---|---|

Monitoring

Monitoring Is A Continuous Process

- | | |
|---|---|
| <ul style="list-style-type: none"> • CMU <ul style="list-style-type: none"> - Objective of monitoring is to enable control of SDA - Monitoring is active - Monitoring the past and present - Monitoring is a key aspect of contract management - Each SDA must have its own monitoring regime to ensure SDA compliance and to allow tariff formation - Monitoring also provides data for subsequent evaluation | <ul style="list-style-type: none"> • SU <ul style="list-style-type: none"> - Objective of monitoring is to enable consolidation of results - Monitoring is passive - Monitoring the past - Monitoring actions of MOE Boards through Minutes of Board meetings - Monitor financial performance of MOE's through normal quarterly financial reports |
|---|---|

Service Delivery Process



Evaluation

Evaluation Is By Discrete Studies/Projects

- CMU
 - Objective of evaluations is to improve service delivery
 - Evaluate performance against SDA's
 - Evaluations pursuant to tariff formation
 - Evaluations and research toward improving KPIs
- SU
 - Objective of evaluations is to improve corporate governance
 - Evaluate performance of Boards
 - Evaluate performance of auditors
 - Evaluate asset condition and valuation
 - Conduct due diligence prior to transactions

Transition Path for 2002/03

- CMU
 - Appoint directors
 - Appoint/recruit contract managers
 - Revise SDA's
 - Establish tariff methodology
 - Begin research toward improving KPIs
- SU
 - Remove offices from CMU
 - Supporting HR systems and budget
 - Appoint staff
 - Establish corporate governance framework
 - Design capital investment allocation framework
 - Operationalise Advisory committee
 - Design business plan process
 - Organise 1st annual shareholder meetings



Contract Management Packages

City of Johannesburg

PADCO Inc./USAID

Misty Hills Retreat

11-13 September 2002

Objective of Presentation

- Revisit differences between UACs and contract management approaches
- Suggest a grouping for the purposes of making Contract Manager assignments
- Discussion on the grouping, toward agreement, to enable job descriptions to be drawn up and recruiting to begin

Economic Characteristics of UACs

- Essential services for which users pay
 - Water, Power, Gas, Pikitup domestic, Metrobus public transit
- Public services/no or nominal user fees
 - Pikitup street cleaning, disposal, Roads, Parks, Zoo, Trading Co.
- Administrative support
 - Propcom, Fleet, IT

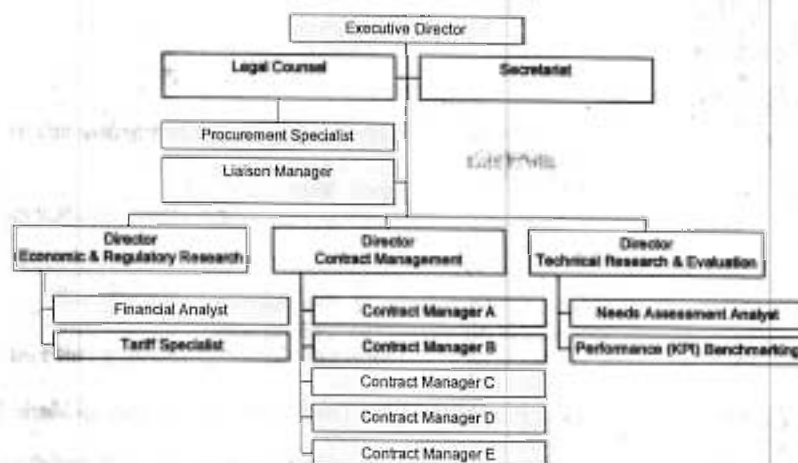
Economic Characteristics of UACs

- Private goods subject to competition
 - Fresh Produce Market, Civic Theatre, Pikitup commercial, Metrobus commercial
- Special purpose
 - JDA

Different Contract Management Approaches

- Essential services for which users pay (especially monopolies) require contract management and tariff setting process
- Public services without user fees and administrative support services require contract management (as a client)
- Competitive private goods require least oversight

Suggested Organizational Structure of CMU



Assignments for Contract Management – Suggested by Economics

- A. Jo'burg Water; Pikitup municipal; City Power; Kelvin IPP; Igoli Gas; Metrobus
Essential services for which users pay
- B. Roads; Parks; Zoo; JDA; Metro Trading Co
Public services/no or nominal user fees
- C. Private sector outsourcing: IT; Fleet; Propcom; other
Administrative support
- D. Produce Market; Civic Theatre; Pikitup commercial
Private goods subject to competition common

Assignments for Contract Management – Adapted for Other Factors

- A. Jo'burg Water; Pikitup
Similar economics, also common technical characteristics as water & sanitation
- B. City Power; Kelvin IPP; Igoli Gas
Similar economics, also common technical characteristics as energy providers
- C. Roads; Parks; Zoo
Similar economics, common management characteristics
- D. Private sector outsourcing: IT; Fleet; other
Similar economics, common management characteristics as competitive contracts
- E. Metrobus; Propcom; Metro Trading Co; JDA; Produce Market; Civic Theatre
Common management characteristics as potentially self-financing

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NOTES ON CMU JOB DESCRIPTIONS
PREPARED BY PADCO EXPERT ADVISORY TEAM
SEPTEMBER 2002

DATE: September 19, 2002

TO: Phindile Nzimande

FROM: Thelma Triche

**SUBJECT: NOTES ON JOB DESCRIPTIONS SUBMITTED BY
PADCO/USAID TEAM ON SEPT. 18, 2002**

These notes refer to the job descriptions for the following nine CMU positions that were revised/drafted during the period Sept 11 – 19, 2002:

- § Executive Director
- § Legal Counsel
- § Director of Contract Management
- § Contract Manager
- § Director of Economic and Regulatory Research
- § Tariff Policy Specialist/Analyst
- § Director of Technical Research and Evaluation
- § Needs Assessment Analyst
- § Performance Benchmarking Specialist

Basis of the revisions: The job descriptions were originally drafted by the PADCO/USAID team in June 2002. The current revised job descriptions correspond to the structure and staffing of CMU that were approved by the Mayoral Committee on July 8, 2002.¹ The descriptions of the five lead positions, Executive Director, Legal Counsel, Director of Contract Management, Director of Economic and Regulatory Research, and Director of Technical Research and Evaluation, were discussed and revised by staff of CMU and PADCO/USAID team members during the CMU Strategic Planning Workshop on Sept. 10 – 13, 2002.² They were subsequently edited by the PADCO/USAID team to ensure consistency in terminology and form, and to reflect the relationships among the units and the complementarity of roles that were agreed during the workshop. The remaining job descriptions for the staff of the three directorates were then revised accordingly. Thus, if one of the job descriptions is further revised, changes in several others may be required to maintain the necessary consistency.

Complementarity of the roles of CMU's units: The words describing the functions of each position were carefully chosen to reflect the complementarity of the different roles. To ensure a coordinated approach to the CMU's main function, i.e., contract management, it was agreed that the Directorate of Contract Management will assume responsibility for *managing the process* of contract preparation and negotiation and, following approval and signature, for monitoring and control of the contracts. As such it

¹ Item 24 of Minutes of Mayoral Committee, 8 July 2002.

² Participants included CMU staff: Phindile Nzimande, Prem Govender, Peter Coetzee, Nolene Morris, Ian Davies, and Umeiya Majam; Resolve workshop facilitator: Tammy Campbell; and PADCO/USAID team members: David Keith and Thelma Triche.

will be the key “line directorate” of the CMU. All contacts with the service providers will flow through and be coordinated by the respective contract managers. While contract managers will manage the contract preparation and negotiation, the Legal Counsel will have primary responsibility for *formulating the terms and conditions of contracts and will lead negotiations*. Once contracts are effective, however, the contract managers will assume the *lead in compliance monitoring*, while the Legal Counsel will *provide advice* as needed. The Directorates of Economic and Regulatory Research and of Technical Research and Evaluation will be “staff directorates” that *provide expert input* for all phases of contract management. They also have primary responsibility for specialized tasks in contract preparation and negotiation, such as to *determine tariff methodologies* and *determine the technical and service quality performance indicators*. In addition they have lead responsibility for implementing the economic and technical research and policy development activities of CMU.

Contract Managers: Given the CMU’s current work load (16 contracts with a fairly wide range of public and private service providers), at least five contract managers will be needed. Each one would be assigned responsibility for two or more contracts that should be logically grouped. (See PADCO/USAID powerpoint presentation on Contract Management Packages, Sept. 12, 2002.) Contract managers should ideally be sector specialists with relevant experience in the management and operation of the types of services for which they are responsible.

Tariff Policy Specialist/Analyst: Two staff positions have been approved for the Directorate of Economic and Regulatory Research. There are two types of tasks that need to be performed: development of tariff policies and methodologies (Tariff Policy Specialist); and the hands-on financial and economic modeling and analysis (Tariff Analyst). Rather than divide these tasks between two staff members, it is suggested that the two staff members have responsibility for both types of work. There are two reasons for this: a good tariff specialist should be knowledgeable about the theoretical underpinnings and policy research, and be able to carry out the hands-on financial and economic analysis. Given the time constraints under which CMU works, it is particularly desirable that both staff members be able to carry out the analysis and interpret the analytical work of consultants. However, if need be, the two can be separated: the job description for the Tariff Policy Specialist would include items 1 through 4, 10, and 11. The job description for the Tariff Analyst would include items 5 through 9, 10, and 11. It would be desirable to add an additional duty to the Tariff Policy Specialist job description, i.e.: Carry out financial and economic modeling and analysis as needed.

CITY OF JOHANNESBURG CONTRACT MANAGEMENT UNIT

JOB DESCRIPTION

Position/Title: Director of Economic and Regulatory Research

Reports to: Executive Director

Summary Description: Provides financial and economic analysis and formulates and negotiates methodologies for setting tariffs and/or fees to be incorporated in the contracts with relevant service providers (i.e., service providers which are subject to contractual terms that regulate or determine their tariffs or fees). Undertakes research and policy development in the areas of tariff and fee determination and willingness-to-pay. Contributes to the development of tariff policy. Liaises with regulators and other government departments in South Africa to ensure consistency and resolve any issues and conflicts that arise with regard to tariffs and tariff setting methodologies.

Specific Duties:

1. Define the type, and level of detail, of financial information to be provided and the accounting policies and procedures to be followed by the relevant service providers as part of the tendering and/or negotiation process and during implementation, for the purposes of tariff or fee determination.
2. Coordinate with the Shareholder Unit in the definition of financial reporting and accounting policy and procedures so as to ensure consistency and streamline financial reporting by service providers.
3. Analyse and determine the adequacy of the financial information provided by the service providers.
4. For each of the relevant services, develop tariff and/or fee policy recommendations that reflect “best practice”, as is appropriate in the context of the Johannesburg metropolitan area, to be submitted by the Executive Director to the relevant Portfolio Committee Chairperson for Council approval.
5. Determine tariff methodologies to be negotiated and incorporated into contracts.
6. Coordinate with the Director of Technical Research and Evaluation in defining and negotiating service quality and performance standards and targets so that the cost implications are taken into account.
7. Develop and implement a program of regulatory research to inform the formulation and implementation of appropriate tariff methodologies and the development of policy recommendations.
8. For each of the relevant services, oversee the development of a financial model to project the revenue requirements of, and the impact of proposed tariff policies and methodologies on, the service provider’s financial viability and capacity to meet the terms of its contract.
9. For each of the relevant services, oversee the development of an economic model that incorporates life cycle costing concepts to determine the long-run marginal cost of the services, for the purpose of informing tariff policy recommendations and the determination of tariff methodologies.

10. Provide analyses of tariffs, financial and economic performance and efficiency to Contract Managers to be incorporated in periodic reports on the performance and compliance of service providers.
11. Report routinely to the Executive Director on issues and developments in the areas of financial and economic evaluation, and tariff and fee setting policies and methodologies.
12. Maintain professional contacts and institutional relationships to promote the exchange of information on the theoretical aspects of, and practical experience with tariff regulation and fee setting.

Management Responsibilities:

13. Lead and direct staff in the Economic and Regulatory Research Directorate such that they are able to perform their duties and support the overall objectives of the Directorate.
14. Brief and direct external consultants to the Economic and Regulatory Research Directorate so that they work within clearly defined terms of reference and the allocated budgets.
15. Prepare, monitor and control the annual budget allocated to support the activities of the Economic and Regulatory Research Directorate, so that expenditures are in line with the requirements of the Contract Management Unit.

(Sept. 17, 2002)

CITY OF JOHANNESBURG CONTRACT MANAGEMENT UNIT

JOB DESCRIPTION

Position/Title: Director of Technical Research and Evaluation

Reports to: Executive Director

Summary Description: Provides technical analysis to support the contracting process and formulates technical and operational performance and service quality targets and related reporting requirements to be incorporated into contracts for service delivery. Collaborates with the Contract Managers in negotiating said targets and reporting requirements. Undertakes research in the areas of best practice, benchmarking, and performance indicators. Develops performance and service quality policy recommendations that reflect “best practice” as is appropriate in the context of the Johannesburg metropolitan area. Undertakes needs assessments for each type of public service, and recommends policies to address needs that are not being met. Liaises with regulators and other government departments in South Africa to ensure consistency and resolve any issues and conflicts that arise with regard to technical standards and targets.

Specific Duties:

1. Define the type, level of detail, and reporting formats of technical information to be provided by the service providers as part of the proposal or negotiation process and during implementation.
2. Analyse and determine the adequacy of the technical and service quality information provided by the service providers.
3. Determine the technical and service quality performance indicators, standards and targets to be incorporated into contracts so that they reflect the needs of consumers and the Council's legal responsibilities and policies.
4. Coordinate with the Director of Economic and Regulatory Research in defining and negotiating service quality and performance standards and targets so that the cost implications of are taken into account.
5. Develop and implement a program of benchmarking research to inform the development of technical and service quality performance indicators, standards and targets; and the compliance monitoring process.
6. Provide relevant technical information and analysis to Contract Managers to be incorporated in periodic reports on the performance and compliance of service providers.
7. Prepare periodic reports to be submitted by the Executive Director to the responsible Portfolio Committee Chairperson and/or referral to the City Manager.
8. Report routinely to the Executive Director on the status of all performance indicator research, needs assessment surveys and service delivery recommendations.
9. Maintain professional contacts and institutional relationships to promote the exchange of information on the theoretical aspects of, and practical experience with tariff regulation and fee setting

Management Responsibilities:

10. Lead and direct staff in the Technical Evaluation and Research Directorate such that they are able to perform their duties and support the overall objectives of the Directorate.
11. Brief and direct external consultants to the Technical Research and Evaluation Directorate so that they work within clearly defined terms of reference and the allocated budgets.
12. Prepare, monitor and control the annual budget allocated to support the activities of the Technical Research and Evaluation Directorate, so that expenditures are in line with the requirements of the Contract Management Unit.

(Sept. 17, 2002)

CITY OF JOHANNESBURG CONTRACT MANAGEMENT UNIT

JOB DESCRIPTION

Position/Title: Tariff Policy Specialist/Analyst

Reports to: Director of Economic and Regulatory Research

Summary Description: Undertakes research and provides analytical support for policy development in the areas of tariff and fee determination and willingness-to-pay. Provides financial and economic analysis to support the development of tariff and fee setting methodologies. Supports the Contract Managers in the negotiation of tariff and fee formulae and procedures. Assumes other related responsibilities as directed by the Director of Economic and Regulatory Research.

Specific Duties:

1. Stay informed about tariff regulation and fee setting theories and practices as a basis for developing and implementing tariff and fee policies and methodologies (for setting baseline tariffs and making periodic adjustments to reflect inflation, exchange rate changes, etc.).
2. For each of the relevant services (i.e., services which are subject to contractual terms that regulate or determine their tariffs or fees and periodic adjustments thereto), provide analysis to support the development of tariff and/or fee policy recommendations that reflect “best practice”, as is appropriate in the context of the Johannesburg metropolitan area.
3. Analyse the policies and methodologies for setting and adjusting tariffs applied by other regulators and government departments in South Africa and participate in the development of recommendations to promote consistency and the resolution of conflicts.
4. Participate in the development of methodologies for setting and/or adjusting tariffs or fees, such methodologies to be negotiated and incorporated into contracts with service providers.
5. Collaborate with external consultants in the development of financial models to project the revenue requirements of, and the impact of proposed tariff policies and methodologies on the relevant service providers’ financial viability and their capacity to meet the terms of their contracts.
6. Collaborate with external consultants in the development of economic models that incorporate life cycle costing and economic costs to determine the long-run marginal cost of the relevant services, for the purpose of informing tariff policy recommendations and the determination of tariff methodologies.
7. Analyse or participate in the analysis of tariffs, and financial and economic performance to be incorporated in periodic reports on the performance and compliance of service providers.
8. Participate in the evaluation of the efficiency of service providers.
9. Analyse the economic justification of proposed projects and service quality and performance standards using methodologies such as economic cost/benefit analysis, economic rate-of-return analysis, etc.
10. Participate in the design and analysis of periodic “ability-to-pay” and “willingness-to pay” surveys of consumers as requested.
11. Report routinely to the Director on the status of all assigned tasks.

(Sept. 18, 2002)

**CITY OF JOHANNESBURG
CONTRACT MANAGEMENT UNIT**

JOB DESCRIPTION

Position/Title: Performance Benchmarking Specialist

Reports to: Director of Technical Research and Evaluation

Summary Description: Provides technical support in the development of terms of reference, scopes of services, and performance criteria to be negotiated and incorporated into contracts for service delivery. Undertakes research and provides analytical support for policy development in the areas of technical best practice, benchmarking, and performance and service quality standards and targets for the various services. Assumes other related responsibilities as directed by the Director of Technical Research and Evaluation.

Specific Duties:

1. Conduct research and analysis to support the formulation of recommendations on the type, and level of detail, and reporting formats of technical information that is required to be provided by the service providers as part of the proposal or negotiation process and during implementation.
2. Analyse the adequacy of the technical and service quality information provided by the service providers.
3. Support the determination of technical and service quality performance indicators, standards and targets to be incorporated into contracts.
4. Provide assistance to the Contract Managers in monitoring and analysing the compliance of service providers with technical and service quality performance requirements of their contracts.
5. Conduct benchmarking research to inform the development of technical and service quality performance indicators, standards and targets, and the compliance monitoring process.
6. Collaborate with the Needs Assessment Analyst to ensure that technical performance and service quality indicators are defined so as to measure relevant outputs, and that the related targets and standards that are incorporated into contracts with service providers are consistent with policies regarding consumer access to service and mandated standards.
7. Collaborate with staff of the Economic and Regulatory Research Directorate in the economic analysis of projects and service quality and performance standards.
8. Participate in the evaluation of the efficiency of service providers as requested.
9. Support the preparation of periodic reports on technical performance and service quality indicators and their effectiveness in improving service delivery, and the development of related policy recommendations.
10. Report routinely to the Director of Technical Research and Evaluation on the status of all assigned tasks.

(Sept. 18, 2002)

CITY OF JOHANNESBURG CONTRACT MANAGEMENT UNIT

JOB DESCRIPTION

Position/Title: Contract Manager

Reports to: Director of Contract Management

Summary Description: Manages contracts for a specific service or services, as delegated by the Director of Contract Management. Manages contracts in a standardized and documented manner, and in accordance with legal requirements, city policy and CMU systems. Applies the highest standards of professionalism and objectivity to all aspects of the contracting process in order to protect the interests of the City Council.

Specific Duties:

1. Manage the preparation, tendering and/or negotiation of contracts with service providers under the leadership of the Office of Legal Counsel.
2. Manage the development of terms of reference, scopes of work, performance criteria, monitoring plans and reporting requirements that form the basis of contracts with service providers.
3. Coordinate (or, at the direction of the Director of Contract Management, lead and coordinate) the evaluation of proposals for competitively tendered services, and prepare the final evaluation report.
4. Coordinate and facilitate the participation of staff of the CMU and other relevant departments of City Government as required, and integrate their inputs, in the preparation, tendering, negotiation and evaluation of contracts with service providers.
5. Routinely monitor the compliance of service providers with the terms of their respective contracts and in accordance with the agreed monitoring plans; and maintain monitoring records and prepare reports as required by the CMU monitoring system.
6. Monitor service providers' compliance with legal requirements for securing and maintaining licenses.
7. Report routinely to the Director of Contract Management on the status of service delivery procurements and negotiations, and on the performance and compliance of service providers.
8. Inform the Director of Contract Management when the inputs of staff of the CMU or other departments of the City Government are needed.
9. At the request of the Director of Contract Management, prepare periodic reports on the performance and compliance of service providers to be submitted by the Executive Director to the responsible Portfolio Committee Chairperson.

(Sept. 17, 2002)

CITY OF JOHANNESBURG CONTRACT MANAGEMENT UNIT

JOB DESCRIPTION

Position/Title: Director of Contract Management

Reports to: Executive Director

Summary Description: Manages the procurement, negotiation, and contract fulfilment process (hereinafter referred to as contract management) as it relates to capturing the policy objectives of the Council in contracts with service providers. Ensures that contract management is conducted in a standardized and documented manner, and that Contract Managers carry out their duties in accord with the highest standards of professionalism so as to protect the interests of the Council.

Specific Duties:

1. Oversee and approve the development of terms of reference, scopes of work, performance criteria, monitoring plans and reporting requirements that form the basis of contracts with service providers.
2. Request the services of the staff of the CMU and other relevant departments of City Government as required in the negotiation of contracts with service providers; coordinate and facilitate their participation and ensure the integration of their inputs in the negotiation process.
3. Appoint the evaluation team and lead the evaluation of proposals for competitively tendered services, and forward the evaluation report to the Executive Director with a recommendation.
4. Manage the negotiation process, review negotiated contracts and forward them to the Executive Director with a recommendation.
5. Keep other staff of the CMU informed about issues encountered in the monitoring and enforcement of contracts with service providers and advise them when their input or action is required.
6. Report routinely to the Executive Director on the status of all services being negotiated or under contract, the performance of both the service providers and the City, their respective compliance with the terms of contracts, and any issues needing attention and resolution by the Contract Management Unit or referral to the City Manager.
7. Prepare periodic reports on the performance and compliance of service providers to be submitted by the Executive Director to the responsible Portfolio Committee Chairperson.

Management Responsibilities:

8. Lead and direct staff in the Contract Management Directorate such that they are able to perform their duties and support the objectives of the Directorate.
9. Delegate the management of one or more specific contracts to individual Contract Managers.
10. Develop and maintain systems to monitor the activities of the Contract Managers and ensure the quality and professionalism of their performance.

11. Brief and direct external consultants to the Contract Management Directorate so that they work within clearly defined terms of reference and the allocated budgets.
12. Prepare, monitor and control the annual budget allocated to support the activities of the Contract Management Directorate so that expenditures are in line with the requirements of the Contract Management Unit.

(Sept 17, 2002)

CITY OF JOHANNESBURG CONTRACT MANAGEMENT UNIT

JOB DESCRIPTION

Position/Title: Executive Director

Reports to: City Manager

Summary Description: Directs the implementation strategy that transitions the delivery of public services in the City of Johannesburg into a contractual, business relationship between the UAC's, or other contractual service providers, and the Council, as client and representative of the people. Translates public policy, in terms of public service delivery, as defined by the Council through its various Portfolio Committees, into contractual standards of performance, captured in enforceable contracts with public or private service providers. Monitors the implementation of contracts to ensure that Council is able to discharge its responsibility for delivering essential public services.

Specific Duties:

1. Interact with and provide reports to Portfolio Committee Chairpersons.
2. Interact with and report to the City Manager on relevant issues.
3. Represent the City Manager, before the Council, on matters relating to the performance of service providers whose contracts are managed by the CMU.
4. Provide final review, and approval of the procurement process followed, for all openly competed service contracts managed by the CMU.
5. Recommend to the City Manager the award and signature of all openly competed service contracts.
6. Provide final review of, and recommend to the City Manager for signature, all contracts negotiated by the CMU.
7. Inform the City Manager regarding the compliance or non-compliance with contracts by both service providers and the City, and recommend actions to be taken in this regard.
8. Manage liaison activities for, and on behalf of, the Council relative to the delivery of public services.
9. Act on behalf of the Council, in its role as client, in accordance with the rules stipulated in contracts with service providers.

Management Responsibilities:

10. Oversee the operational management of the CMU and provide strategic direction.
11. Plan and prepare the annual operating budget of the CMU and submit budget requests to the City Manager.
12. Manage the operating budget of the CMU within the expectations of the City Manager.
13. Lead and direct the staff within the CMU and ensure that proper career development plans are in place.

(Sept. 16, 2002)

CITY OF JOHANNESBURG CONTRACT MANAGEMENT UNIT

JOB DESCRIPTION

Position/Title: Legal Counsel

Reports to: Executive Director

Summary Description: Provides legal advice to the CMU and, through the Executive Director, to the relevant Portfolio Committee Chairperson on matters relating to the activities of the CMU. Formulates contracts, leads negotiations with service providers, and manages licensing regimes and a dispute resolution regime as they relate to the activities of CMU.

Specific Duties:

1. Formulate terms and conditions, to be used in all contracts, that are to be negotiated and monitored by the CMU.
2. Develop standard templates for contracts.
3. Review the existing by-laws of the City of Johannesburg and facilitate the promulgation of new by-laws, or amendments to existing by-laws, when needed to support service delivery contracts.
4. Develop, establish and manage breach and dispute resolution mechanisms so that all issues of breach and dispute between the Council and the service providers can be dealt with consistently.
5. Develop, establish and manage licensing regimes for relevant services.
6. Advise contract managers on compliance matters and recommend actions to be taken in instances of non-compliance.
7. Provide legal advice relevant to the activities of CMU to its staff.
8. Monitor and review the development of national and international legislation and legal practices and advise the CMU on new requirements and practices that affect its activities.
9. Lead the negotiation of contracts with service providers.
10. Advise and collaborate with service providers and coordinate with other sections of the City on legal matters of mutual concern.
11. Prepare and make all periodic reports on the legal issues being addressed by the CMU to be submitted to the responsible Portfolio Committee Chairperson by the Executive Director.
12. Prepare legal components of periodic reports on the performance and compliance of service providers to be submitted by the Executive Director to the responsible Portfolio Committee Chairperson or referral to the City Manager.
13. Report routinely to the Executive Director on the status of all services being negotiated or under contract, and on all legal issues requiring attention and resolution by the Contract Management Unit.

Management Responsibilities:

14. Lead and direct staff in the Legal Counsel Section such that they are able to perform their duties and support the overall objectives of the Section.

15. Brief and direct external legal counsel, so that they work within clearly defined terms of reference and the allocated budgets.
16. Prepare, monitor and control the annual budget allocated to support the activities of the Legal Section so that expenditures are in line with the requirements of the Contract Management Unit.

(Sept. 16, 2002)

**CITY OF JOHANNESBURG
CONTRACT MANAGEMENT UNIT**

JOB DESCRIPTION

Position/Title: Needs Assessment Analyst

Reports to: Director of Technical Research and Evaluation

Summary Description: Analyses consumer needs for, level of satisfaction with, and willingness-to-pay for the various services for which contracts are managed by the CMU. Analyses the impact on the aforementioned services of proposed and approved national standards of service quality, access to service, and other technical standards. Provides analytic support for the development of policies, strategies and contractual terms for meeting consumer needs and complying with mandated standards. Assumes other related responsibilities as directed by the Director of Technical Research and Evaluation.

Specific Duties:

1. Supervise the preparation and implementation of surveys on the availability and quality of services, and the expectations and ability/willingness-to-pay of the served public, collaborating with the Tariff Analyst in the case of ability and willingness-to-pay studies.
2. Monitor, analyse, and prepare reports on all proposed bills, national legislation and regulations that mandate standards of service quality, access to service, and other technical standards and that affect (or would affect) the services for which contracts are managed by the CMU.
3. Contribute to the preparation of policy recommendations on access to service, service expansion, and service quality standards.
4. Evaluate or participate in the evaluation of whether strategies and plans proposed by the service providers for expansion, upgrades and operational improvements are likely to meet the needs and expectations of consumers, are consistent with the City's overall development plans, and satisfy legal and policy requirements.
5. In cooperation with the staff of the Economic and Regulatory Research Directorate, analyse the financial impact of changes in laws or regulations on the affected services.
6. Collaborate with the Performance Benchmarking Specialist to ensure that technical performance and service quality indicators are defined so as to measure relevant outputs and that the related targets and standards, that are incorporated into contracts with service providers, are consistent with policies regarding consumer access to service and mandated standards.
7. Provide technical input to the Contract Managers in the preparation of terms of reference, scopes of work, and performance criteria that reflect Council policy and other legal requirements with regard to access to service, service quality and technical standards.
8. Report routinely to the Director on the status of all assigned tasks.

(Sept. 18, 2002)

PADCO
Progress Report No. 2

Support to the Contract Management Unit
of the Greater Johannesburg Metro Council

COMMENTS ON DRAFT TARIFF PLANNING PROCESS

Subject Draft Tariff Planning Process
Dated September 2002, Presented by 3P

To Phindile Nzimande & Prem Govender

From David Keith and Thelma Triche

Date September 17, 2002

Review of Draft Presentation

At Prem's request, we reviewed this presentation. It is a good start.

Here are our notes on it:

- 1) It may not be possible to adopt a multi-year tariff for several years, until the whole process of CMU interacting with the UACs settles in. CMU may need to set annual (or near-annual) tariffs for quite a while yet. Multi-year tariffs are helpful to attract investors by providing them certainty of tariff regime. However, the UACs are MOEs, not private companies, so this benefit can be ignored. In the near term, we expect that annual CoJ budgets and other CoJ actions (on billing & collections, collective bargaining, debt financing, and pass-through tariffs) will remain a primary determinant of financial viability. As long as that is the case, it will be difficult to establish a multi-year regime.
- 2) Multi-year cycles also lighten a regulator's workload, but we suggest that be accomplished another way. To level the workload, and to help "settle in" the CMU process, we suggest that it would be good this year (2002/2003) to begin transitioning many of the various UAC tariff cycles away from the annual City budget cycle. It would also be good to transition the UACs into logical sets, so that these sets are spread across the year. Those sets can be determined to manage Research and Contract Manager workloads. To do that, CMU could set some tariffs this year that would apply for the next 6 months, others 9 months, some 12 months, 15 months, 18 months, and so forth. This would put the UACs into a sequence. After setting up the sequence, phasing, then 12-month tariffs could be set annually (evolving to multiyear in some cases, once CMU and UACs get comfortable with the process).
- 3) It is critical that CoJ (and its UACs) be allowed to pass-through directly to UAC consumers those wholesale (bulk supply) costs that are dictated by external actors and over which the UACs have little or no control. Examples of such bulk suppliers are principally Rand Water and Eskom, but another externality may be diesel oil prices, as paid by Metrobus (which fluctuate with world oil prices). If the City continues to regulate "final" (or aggregated) retail tariffs, then the value-added distributors like City Power and Joburg Water will be squeezed. Instead, the distribution tariff (only) should be determined by CoJ/CMU, with the bulk supply cost fully passed-through. In California

recently, the unenlightened policy of regulating aggregated retail tariffs led to the bankruptcy of the two largest electricity distribution companies in the state, Southern California Edison and Pacific Gas & Electric, when wholesale tariffs rose significantly. This ultimately led to a bailout by the California state government, costing taxpayers billions of dollars. In order to create incentives to reduce consumption, the UAC may be granted somewhat less than the full cost increase. This is commonly done by creating a “price index minus X” escalation clause on the pass-through element.

- 4) 3P’s Slide 6 mentions potential under-recovery. This is always a challenge, but we wonder what perspective is assumed here. This could be under-recovery resulting from a flaw in the tariff design or poor performance by the collection agent. If collections are still handled by the CoJ, this is a problem over which the UACs seem to have little control. It could also be that this comment of under-recovery relates to the previously-mentioned pass-through items such as Rand Water. That could result in a severe squeeze on the UAC. If it is unable to pay the bulk supplier, there could be dire consequences.
- 5) Slide 6 mentions short time frame for CMU to review. While this seems true, because the process is a continuous cycle there is actually an opportunity for CMU to define a process that will allow more time for review, as the cycle goes on. UACs could be required to deliver a tariff proposal several months in advance of what might be called the “Committee high season”, with the high season process being limited to defining a few key “plug in” parameters in the tariff. Councillors could be provided with input in the form of sensitivity analyses around those plug-in parameters. We need to be clear on whether it is a formula that is being approved by Council or the tariff itself. If it’s a formula, then timing of the formal decision can be done well in advance of the high season. If it is the actual tariff to be charged and cannot be adjusted without Council approval, time is important.
- 6) Slide 7 says that a cost reflective model is a must. We agree. But the second line calls for “life cycle capital costing”. This implies an economic, rather than financial, tariff model. We doubt that an economic cost of service model is realistic, given the massive cross-subsidies inherent in “free basic services”, now being borne by larger users of water and power. Instead, the level of tariffs (average tariff) must be based on financial revenue requirements. The structure of tariffs may be informed by life cycle costs (or long run marginal costs). For example, in most countries small household consumers pay the highest electricity tariffs, because of the high long-run marginal cost of connecting individual consumers. However, given the recent adoption of “free water and free electricity tariffs”, transition to tariffs based on life cycle cost principles will be difficult. We therefore suggest that only a simplistic model of economic costs be created for each UAC, and we believe this will do well-enough to inform decision-makers. A detailed, UAC-specific, financial revenue requirement model is the most practical/feasible approach in the near term, and must be the basis of tariff design.
- 7) Slide 7 describes the model as being based on a basket of drivers. We’d prefer to suggest that the tariff model be based on a model of the UAC itself, perhaps the UAC’s most recent annual budget. Here’s how we suggest CMU and the UAC proceed to take steps to develop such models:

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- a. We expect each UAC already has an existing annual budget model in spreadsheet form, which is probably developed on a monthly basis, and lists all the customary cost parameters of the business. If not, they should prepare one!
 - b. We suggest that, to initiate the process, each UAC's budget model be adapted to become the core of its tariff model. The first adaptation will be to convert the plan to an annual basis, and to use it to project a model of the business out over a longer-term horizon. We suggest 5 years.
 - c. Next, an "input section" should be added to the model to accept a number of input parameters, or drivers. These will depend on the business, but will also include external parameters such as inflation. These variables should feed into the core model, so that changes in variables result in changes within the core model.
 - d. Next, the "output section" of the model should be built, to produce a number of output reports. Most notably, this must include a complete set of *pro forma* financial statements (balance sheet, income statement, sources and uses of funds, for each year). In addition to the *pro forma*'s, the various customary annual financial performance ratios should be outputs calculated by the model.
 - e. The model can then be used for model scenario runs and sensitivity tests, to study the effects on these financial *pro forma*'s to variations in the parameters over time.
- 8) We expect that the "interlocking" of the tariff cycle and its phasing with capital budget is detrimental to good management at UACs, CMU, and elsewhere in CoJ, and so we recommend de-coupling in a rational well-organised way, as mentioned in item 2) above.
- 9) Slide 7 calls for 20-year projections. We normally use a 20-year horizon for economic models, such as long-run marginal cost estimates. However, normally we develop financial revenue requirement tariff models projecting for not more than 5-7 years. The exception would be in the case of a specific transaction to be simulated, such as a 20-year concession term. There are many uncertainties as regards financing in the outer years, and the rate of divergence of financial parameters (such as inflation) can result in things happening to the tariffs that might seem alarming to a Councillor, but could be avoided by good financial management. With today's large spreadsheets, it's possible to project 20 years, but the outer years are not going to be very useful for setting tariffs, or normal decision-making in the case of the CMU and its relations with MOE's under SDA's.
- 10) Slide 8 expects "deviations" (presumably in UAC costs) in the 3-year period could result in "huge tariff hikes" at the end of the period. On the contrary, we expect that well-designed indexation mechanisms will actually result in the reverse being true. Under a well-designed indexation regime, escalation of "primary" costs are already covered, thereby preventing these feared hikes. Therefore, when it is time to carefully examine the tariff at the end of the period, the regulator has the opportunity to uncover efficiencies that the company has obtained through "secondary and tertiary" effects. The result is often an opportunity to reduce tariffs (or improve service levels), rather than the dreaded "huge tariff hikes".

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- 11) If “deviations” really turn out to be as bad as suggested, then either the tariff design (including its escalation clause) is flawed, or the UAC may have agreed to service quality standards or targets that it cannot afford to fulfil, or the service provider does not have sufficient incentives to increase efficiency. Either way, the company will have suffered great losses in the interim and will already have begun to request increases in tariffs or adjustment to SDA’s. The CMU’s Contract Manager will be at the forefront of such discussions through monitoring and regular contact. The Director of Contract Management may have called upon the Director of Economic Research to undertake an evaluation to investigate the matter.
- 12) Slide 8 notes potential elasticity problems with a 3-year process. Perhaps this note simply serves to amplify the “huge hikes” line above. We suppose the point being made is that large tariff increases may result in a decrease in consumption, particularly by the larger users who will start to conserve. This results in a shortfall in revenue. Certainly price elasticity of demand is an effect that needs to be considered. However, demand is relatively inelastic for most of the services UACs provide. As inflation occurs, if tariffs are not adjusted, consumers will tend to use more of the service, based on positive income elasticity (increased ability to pay what amount to declining real prices). But normally, under an indexation regime, tariffs keep up with inflation, and hence the price elasticity effects cancel out the income elasticity effects and overall effect on consumption is fairly negligible. A good first principle in tariff-setting in a growing system is to keep tariffs constant, at least, if not raise them to pay for the high marginal cost of expansion. But here constant refers to real terms, not nominal Rand. Of course that means that in a negative inflation scenario, tariffs should be coming down. We’ve seen that happen recently in a developing country, after its currency strengthened. There, tariffs went down, to the utility company’s detrimental effect, resulting in job losses. There needs to be a zero limit (ratchet) in the formula, to prevent the UAC being unnecessarily starved by negative indexation.
- 13) Slide 8 notes “political debate and resistance from rate payers” to tariff process. While challenging, we expect that public participation in the tariff process is a good thing, overall, and a challenge to be welcomed. Let’s call this challenge an opportunity! We suggest that a campaign to educate consumers on the true cost of services and what the Council is doing to promote efficiency may be needed.
- 14) To summarize from Slide 11:
 - a. We suggest a term shorter than 3 years (12 months nominal, but staggered in groups of 6 – 18 months for this next year to set up the sequence).
 - b. We suggest a 5-year planning horizon for financial models. We suggest the longer horizon of 20 years apply only to economic models (long-run marginal cost, or life cycle cost models).
 - c. We suggest that the tariff process be de-coupled from the other City Budget processes, to the extent feasible.
 - d. We suggest a detailed financial model for each UAC, which is updated every year.
 - e. We suggest a simple economic model for each UAC, which is updated only every 5 years.

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- f. We suggest the use of pass-through tariffs to address the over- and under-recovery of bulk supply costs, with some incentives to improve efficiency
 - g. If the last bullet on Slide 11 means something else (such as under-recovery due to collections problems or theft, or over-recovery due to an unforeseen increase in demand), then we think normally these would not be cause for tariff adjustment by indexation mechanisms. If the City's collection service is not performing, the service provider needs some recourse.
- 15) The formula tabled by 3P in the closed session at CMU (without explanation or discussion) has several problems. This is apparently a water business formula, given its nature, but we assume it was intended to be generic. First, we suggest CMU question whether its source was 3P, Joburg Water, Ondeo, or a textbook. If this is a proposed formula, CMU needs to review this formula very carefully.
- a. The formula sets up no less than seven items of cost pass-through. In our experience, seven items of pass-through is too many, since it transfers too much risk to the consumer or regulator, and surpasses the ability of consumers to understand what is going on. Indexation needs to be linked to cost elements. The simplest indexation would be to take the whole tariff and multiply times "CPI minus X", where X is an efficiency parameter. Such tariffs are easily understood by consumers. However, in our experience, there may be effects due to an external factor (e.g., exchange rate) that could impact the producer. Finally, effects from other factors such as commodity prices may be sufficiently relevant for indexation, though these are generally less well-understood by consumers. In summary, the formula needs to be transparent, understandable, and fairly easy for consumers to check. For the purposes of the first set of UACs, we believe indexation should be set against not more than 3 parameters.
 - b. As noted above, we prefer to see bulk supply costs a straight pass-through, rather than part of the indexation.
 - c. Indexation items need to be attached to definable, well-documented cost pools (e.g., "80% of operations and maintenance costs adjusted by CPI", or "25% of debt service costs adjusted by exchange rate", or "90% of fuel purchases adjusted by world oil prices"), with coefficients (multiplier factors) carefully developed to allow for reasonable protection and promote efficiency improvements). The development of the cost pools requires some effort.
 - d. The formula chases its own tail (or obfuscates reality) by requiring forecasting of costs (subscript $n+1$). Forecasting of future costs is of course impossible, which is the whole point of indexation! An indexation formula must be based on reality - only considering changes during a specific prior period, changes that the consumer can check up on (like published exchange rate).
 - e. The forecasting approach also doubles the number of elements to 14, introducing further complication.
 - f. The formula uses statistical reports from Central Statistical Services to estimate labour costs. If the City continues with collective bargaining, it may be appropriate to index for labour costs, but the parameter should be the actual result of the most recent bargaining agreement, not some statistical parameter.

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- g. In some regulatory regimes, a well-known statistic such as CPI is applied against total operating costs. If so, then the formula on item 5 is appropriate. In addition, absent the CoJ's specific collective bargaining result as data input, CPI could also be applied to labour costs.
- h. In fact, we believe using CPI instead of the collective bargaining agreement may create more incentives for efficiency, in the long run, because then CPI will come to drive the collective bargaining process. When unions succeed in getting a pay rise more than CPI, UACs will have the incentive to cut jobs to compensate, if they are allowed to do so. If unions agree to hold salaries below CPI, either consumers will benefit through lower tariffs, or UACs will have the incentive to create jobs.
- i. The formula for item 6 (interest) is not normally indexed, since most loans for infrastructure are long-term debt at fixed interest rates and do not vary unless long-term debt is restructured. Short-term debt can be minimized through management of collections and expenditures. The MOE should be given some incentive to structure its debt so as to optimise its finances, rather than simply passing interest costs through.
- j. The formula for item 6 as written buries the foreign exchange risk, which will normally be incurred on long-term (dollar-denominated) debt, into merely an interest parameter. The Rand exchange rate is a continuously varying parameter that is easily measured, and that can significantly affect infrastructure businesses. If it is important in South Africa, then it ought to be brought out as an appropriately-designed term. That's the way we treat it in most developing countries. But RSA is much more advanced (self-reliant) than most developing countries, as evidenced by the wide gap between the fall of the Rand and the increase in CPI. If a significant fraction of debt is denominated in foreign currency, then an exchange rate indexation mechanism may be warranted.
- k. The intent of item 7 is not clear to us. Normally, capital expenditure is not covered in the tariff indexation clause. Instead, the company is allowed to recover depreciation plus an agreed rate of return on net (un-depreciated) assets. Item 7 implies either that the rate of return will be adjusted for inflation (at CPI) or that the assets will be continuously re-valued at the rate of inflation (CPI). Neither approach is warranted, in our experience. The normal approach is to leave the rate of return constant, and allow revaluation of the assets (but only at infrequent intervals). The revaluation should not be through an index parameter on the tariff, but rather an adjustment (not more often than annual) to capture the change in asset value, with the regulator expressly approving the revaluation. This should be done by an engineering evaluation every few years (we suggest 5 year intervals) adjusted in between (at not more than annual intervals) by inflation. In the case of asset revaluation, inflation would be better measured by Producer Price Index, rather than CPI, because PPI better approximates the cost of infrastructure assets.
- l. The formula for item 7 (capital expenditure) uses CPI as an indexation parameter. In our experience, that would be an inferior measure. Other measures we suggest, in order of preference, are:
 - i. Direct, discrete changes to capital rate base (step function increases, agreed in advance), based on introduction of a new asset into the rate base. The

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utility is granted a rate increase to cover debt service costs and allow a rate of return once the new asset is commissioned;

- ii. Foreign exchange rate adjustment to a distinct fraction of the rate base, to account for the high imported content in equipment and that many loans are denominated in international currencies.

Utility tariffs are often developed through tariff studies. These are not just science, they are something of an art. Tariff studies are usually done by consulting firms for the company, or for the regulator. We'd be glad to advise on such studies.

We can discuss this before we leave if there's time.

PADCO
Progress Report No. 2

Support to the Contract Management Unit
of the Greater Johannesburg Metro Council

REVIEW OF DRAFT MONITORING AND EVALUATION REPORT

Subject **Draft Monitoring and Evaluation Report**
 Dated July 2002, Presented by David Storey of Resolve

To Phindile Nzimande & Prem Govender

From David Keith

Date September 17, 2002

Review of Draft Report

At Prem's request, I reviewed this report. It is a very good piece of work.

Here are my notes on it:

- 1) I suggest CMU elaborate on the "control system" aspect of monitoring, as I drew on the flip chart. That elaboration would show that it is the Contract Manager who is responsible for monitoring (or getting monitoring done). He/she uses that monitoring to exert control over municipal-owned entity (MOE) performance. He/she also uses that monitoring to determine the need for "emergency" evaluations (repeated failure of an MOE to meet its KPI). He/she is also responsible for ensuring that data is collected for all regular evaluations (those conducted on an MOE every few years). All evaluations would be conducted by the research directorates (whether economic or technical, or both). Those directorates obtain consultancy services if needed. Evaluations would be used to re-form SDAs.
- 2) It is hinted in the document on page 9 that UACs need to participate in the process in order to buy into it. I suggest that be much more explicit. The onus ought to be on the MOE's in the first instance to define the monitoring program, since they know what data is obtainable. They should propose the data collection scheme, for CMU approval. I expect that most MOE's will be honest and conscientious, and that the regime they propose will be better than CMU expects. For those that are not obliging, CMU can send them back to the drawing board, or can intervene. Then over time, as the process unfolds and SDA's evolve, CMU can seek to raise the bar on KPIs.
- 3) The table on page 13 indicates that City Manager and Mayoral Committee "should establish from above what they want to measure". I'm afraid this suggestion may lead to requirements that CMU/CoJ/UAC cannot afford. The higher-ups should limit their role to setting policy, not dictating measurement. Rather than what they want to measure, they ought to establish what they want to see achieved, then let the CMU and MOEs define the appropriate measurement to indicate results.
- 4) I suggest CMU err on the side of simplicity from the outset in monitoring. Monitoring can be relatively cheap, especially if it is vested in one individual (a contract manager)

and with a proper registrar/filing library at CMU. With a contract manager having more than one MOE to monitor, the cost can be less than one full-time person, but of course the magnitude of the effort needs to be handled within his/her ability. CMU should not expect to hire consultants or outsourcing the monitoring function.

- 5) Evaluation is a research project, and research can be expensive. So it ought to be either regularized (and budgeted for) or undertaken based on an identified need or weakness (with a budget set aside for such emergency evaluations based on KPI failures). The contract manager will be the person best able to identify the need for such emergency research, and will inform his/her director. Each evaluation project ought to be handled through a task order process from the director of contract management to the research directorate(s). Each project ought to be treated as an investment, designed and costed beforehand, with consultants used as required. The research directorate(s) should be responsible for evaluations, including retaining consultants.

Suggestions on Unpacking M&E

The following are some additional slides I've added to the Strategic Plan set, intended to describe how the CMU and SU monitoring functions might be best separated.

Monitoring

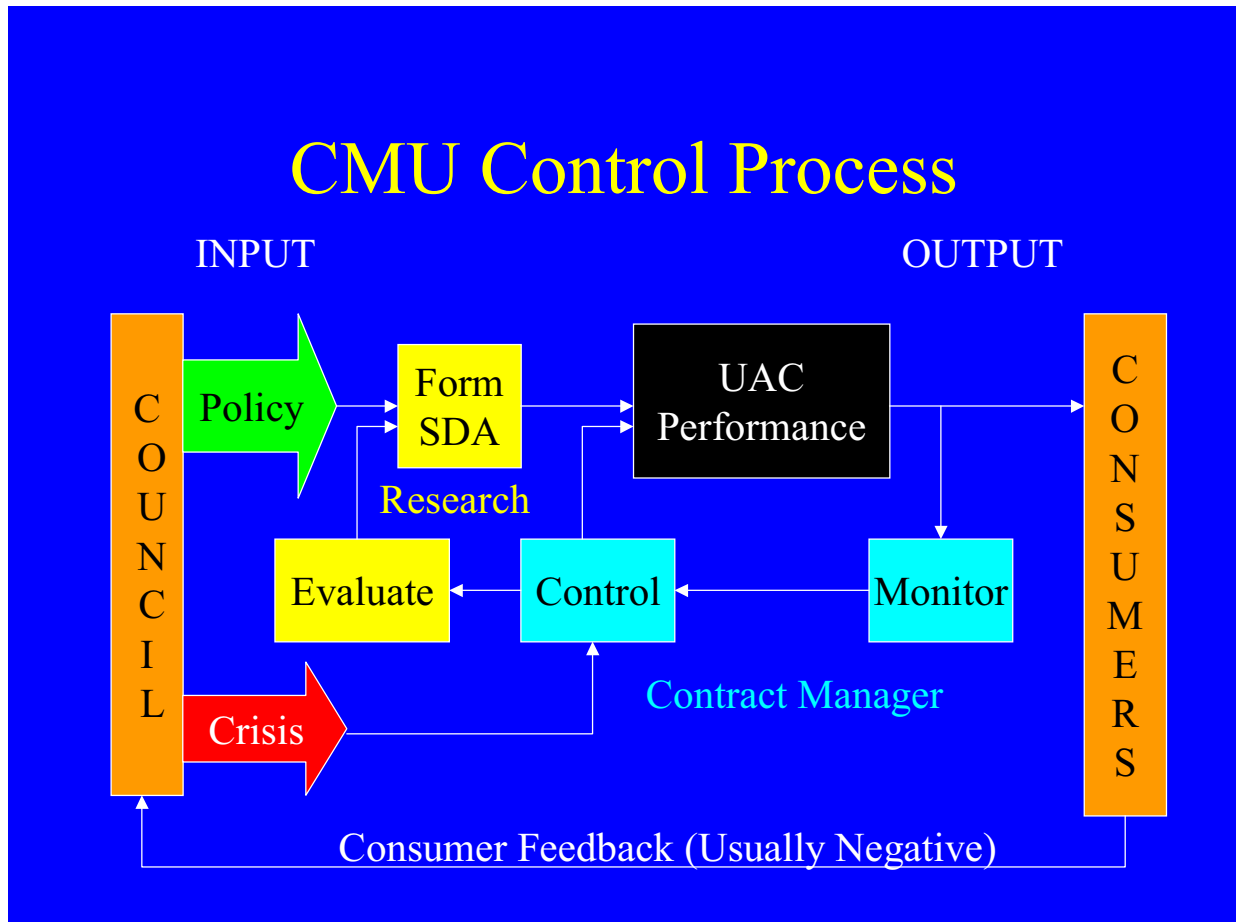
Monitoring Is A Continuous Process

- | | |
|--|--|
| <ul style="list-style-type: none"> • CMU <ul style="list-style-type: none"> – Objective of monitoring is to enable control of SDA – Monitoring is active – Monitoring the past and present – Monitoring is a key aspect of contract management – Each SDA must have its own monitoring regime to ensure SDA compliance and to allow tariff formation – Monitoring also provides data for subsequent evaluation | <ul style="list-style-type: none"> • SU <ul style="list-style-type: none"> – Objective of monitoring is to enable consolidation of results – Monitoring is passive – Monitoring the past – Monitoring actions of MOE Boards through Minutes of Board meetings – Monitor financial performance of MOE's through normal quarterly financial reports |
|--|--|

Evaluation

Evaluation Is By Discrete Studies/Projects

- CMU
 - Objective of evaluations is to improve service delivery
 - Evaluate performance against SDA's
 - Evaluations pursuant to tariff formation
 - Evaluations and research toward improving KPIs
- SU
 - Objective of evaluations is to improve corporate governance
 - Evaluate performance of Boards
 - Evaluate performance of auditors
 - Evaluate asset condition and valuation
 - Conduct due diligence prior to transactions



PADCO
Progress Report No. 2

Support to the Contract Management Unit
of the Greater Johannesburg Metro Council

SUGGESTED PERFORMANCE CONTRACTING APPROACH

Subject Suggested Performance Contracting Approach

To Phindile Nzimande

From David Keith and Thelma Triche

Date September 19, 2002

Concept

As mentioned in Misty Hills, we suggest that CMU institute a “performance contracting” approach to the formation and renegotiation of service delivery agreements (SDA’s) with municipal-owned enterprises (MOE’s).

The objective of such a system would be to more clearly establish what benefits the City is buying and what price is being paid for these benefits. The system would provide a basis for renegotiation of SDA’s and tariffs on a set of principles toward achieving a balance of costs and benefits.

The core concept of performance contracting as described here would be to allow CoJ to strike an optimal bargain between tariffs and performance targets. Performance against performance targets is measured by key performance indicators (KPI’s).

Types of KPI’s

1. Type 1 performance targets and KPI’s are “normal course of business”, meeting standards and resulting in an agreed level of service delivery. This normal course of business is defined in general terms in the SDA, but may also have KPI’s to be verified. In order to fulfil Type 1 KPI’s, the MOE will need to manage its business properly, but need not take on new staff or incur any additional costs.
2. Type 2 performance targets KPI’s set out “stretch” goals, such as toward improving service delivery quality, increasing employment equity, or achieving other CoJ objectives. Type 2 KPI’s are either new KPI’s, or substantial improvements to existing KPI’s. In order to fulfil Type 2 KPI’s, the MOE will need to carry out a “project”, which could call for taking on new staff, incurring maintenance costs, hiring consultants, or making a capital investment.

Attributes of KPI’s

1. Performance targets must be measurable.
2. The KPI’s must be a valid measure of performance.

3. KPI measurements must be reliable (repeatable using the available instruments).
4. KPI measurements should be independently verifiable.
5. KPI's should be quantifiable and time-bound.
6. If possible, performance should be measurable over intervals during the year and tracked, not left till year-end.

Performance Contracting for Type 1 KPI's

- ∄ Type 1 KPI's are the basic part of the SDA. Through the SDA, performance is required, and hence the SDA is a "performance contract".
- ∄ However, it does not appear that CoJ's SDA's, as written, contain performance incentives. Where possible, there should be incentives set out for performance of Type 1 KPI's.
- ∄ Normal performance incentives for private sector contracts are compensation in terms of money - a higher rate of return or profit margin is allowed by the regulator. This is probably the most desirable approach, but may not be possible with the MOE's.
- ∄ MOE management compensation may be the only lever CMU has to enforce performance.
 - 4 "Excellent" performance that exceeds expectations should result in bonuses.
 - 4 "Good" performance that meets contract expectations should result in continued employment for the management of the MOE.
 - 4 Correspondingly, "unsatisfactory" performance should lead to "performance improvement plans" with quantifiable targets related to these KPIs, which should lead within a few months to either rehabilitation or removal from office.
- ∄ Type 1 KPI's should be set in an evolutionary way. Both parties should agree that the concept of "raising the bar" is part of the contract.
- ∄ Thus, Type 1 KPI's should be increased (but only slightly) each year, to obtain the marginal increases in performance and efficiency that would normally accrue in a well-operated commercial business.

Performance Contracting for Type 2 KPI's

- ∄ Type 2 KPI's should be set on the basis of a proposal/approval process, which results in projects being undertaken (leading to the introduction of new KPI's, or substantial improvements to existing KPI's). The process could lead to a decision not to proceed, in which case the KPI's remain unchanged.
- ∄ Either party to the SDA can initiate proposals. MOE's can come up with unsolicited proposals, based on their knowledge of the business. CMU can issue a request for proposal, based on research into best practices, or CMU's experience in SDA contract management.
- ∄ All MOE capital investment projects (over a threshold of R__ million) must be subjected to a Type 2 KPI proposal/approval process.

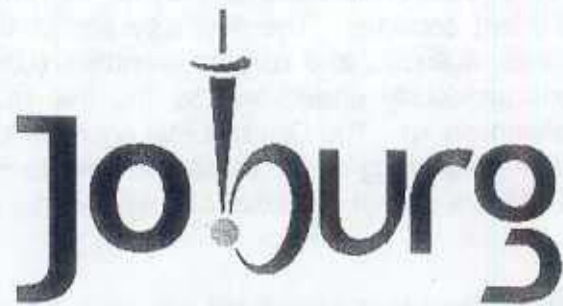
- € Proposals should be made to CMU in a standard form, describing various elements such as the following:
1. Executive summary (2 pages maximum).
 2. General situation of service delivery and the state of the enterprise.
 3. Specific complication giving rise to the performance aspect to be subject of a KPI.
 4. Objective of the project, what question is to be answered, or what problem is to be solved.
 5. Solution proposed – description of the project, in terms of what will be done, what technology will be used, how the project will be carried out, who will do it, when it will be started and completed, where the installation will be made, etc.
 6. Expected benefits, in the form of improvements to KPI's. These should be quantifiable and time-bound. CMU should be readily able to establish or revise KPI's from this proposal.
 7. Risks, describing how the project could fail to realize the expected benefits, and giving some estimate of the likelihood of failure.
 8. Cost of the project – to include all costs (capital costs, engineering or other consulting costs, interest during construction, increased operations & maintenance costs after the installation, increased insurance, etc.).
 9. Social and environmental impacts of the project – to be based on review of RSA environmental standards and the CoJ social policies.
 10. Tariff impact of the project – use the same tariff model as used by CMU/MOE during tariff formation to show how the project's incremental costs and benefits will be reflected in tariffs going forward.
 11. Cost – benefit analysis of the project, using discounted cash flow project evaluation economics.
 12. Any other discussion.
 13. Recommendation of the MOE Board of Directors.
 14. Appendices of any other information, such as equipment specifications, manufacturers' brochures, consulting studies.
- € The City's Shareholder Unit (SU) should receive a copy of all such KPI proposals. In some instances, proposals will precede capital allocations, and be part of the SU's allocation process. In other cases, the capital may be allocated before the proposal to CMU is made. Normally, SU will not be part of the approval process, but will be informed of the outcome.

- € CMU should make decisions on these projects based on its own analysis. In making decisions, CMU should be able to articulate to Council all benefits, costs, and impacts of the project, for Council's recommendation.
- € Once approved, CMU will enter into a "performance contract" for the Type 2 KPI, which will be an addendum to the SDA. It will establish the key elements of the project proposal, to establish a project investment plan and an expectation as regards KPI's to be achieved.
- € During the project phase, performance that "meets contract expectations" should result in continued employment for the project management team. Performance that "exceeds expectations" should result in bonuses for that team, including MOE management. Correspondingly, "unsatisfactory" performance should lead to "performance improvement plans" which should lead to removal of the project management team.
- € It's worth noting that investment projects provide an opportunity for corruption (such as through kickbacks), and CMU will be seeking certifications to prevent such acts. Gross negligence or fraud in investment projects should lead to dismissal of MOE management.
- € Once the project is completed, the outcomes will be monitored for an appropriate period of time by CMU.
- € If successful, the benefits obtained will become part of the "normal course of business".
- € A process needs to be established for those projects that fail to achieve expected benefits. There ought to first be a "rehabilitation or recovery" phase in which attempts are made to salvage the project or obtain at least some degree of benefits. In the case of outright failure, there need to be penalties, but the penalties should be balanced - the fear of failure should not be so great as to stifle innovation.

PADCO
Progress Report No. 2

Support to the Contract Management Unit
of the Greater Johannesburg Metro Council

MONITORING AND EVALUATION REPORT (DRAFT)
PREPARED BY THE CONTRACT MANAGEMENT UNIT



CONTRACT MANAGEMENT UNIT

MONITORING AND EVALUATION REPORT

(DRAFT)

JULY 2002

1. Introduction and Background

The City of Johannesburg was created on 6 December 2000 - a new City poised to deliver more effective and efficient services. The new City lies at the centre of an interconnecting set of ten utilities, agencies and corporate entities (UACs), responsible for a variety of core functions previously undertaken by the five municipalities that merged to form the City of Johannesburg. The Contract Management Unit was created in order to ensure the successful functioning of the companies and to protect the City's interests as a 'client' with regard to its overall objective of heightened service delivery to the community it serves.

The Municipal Infrastructure Investment Unit recognised the importance of the Contract Management Unit (CMU) and the need for it to succeed and have therefore allocated R1 million for technical assistance for specific projects. The Resolve Group has been requested by the MIIU to research the CMU needs with the objective of providing an overview of the potential projects that could be supported with the CMU through the use of MIIU funding.

During initial interviews, the Executive Director of the CMU revealed that a focus on monitoring and evaluation was required. The CMU's role has focussed on assisting with the successful establishment of the UACs, however the evolution of the UACs demands that a greater emphasis be placed on monitoring and evaluation. In this respect the Resolve Group's brief was amended to explore the current challenges associated with monitoring and evaluation, as well as the to scope the desired approach and process of monitoring and evaluation within the CMU.

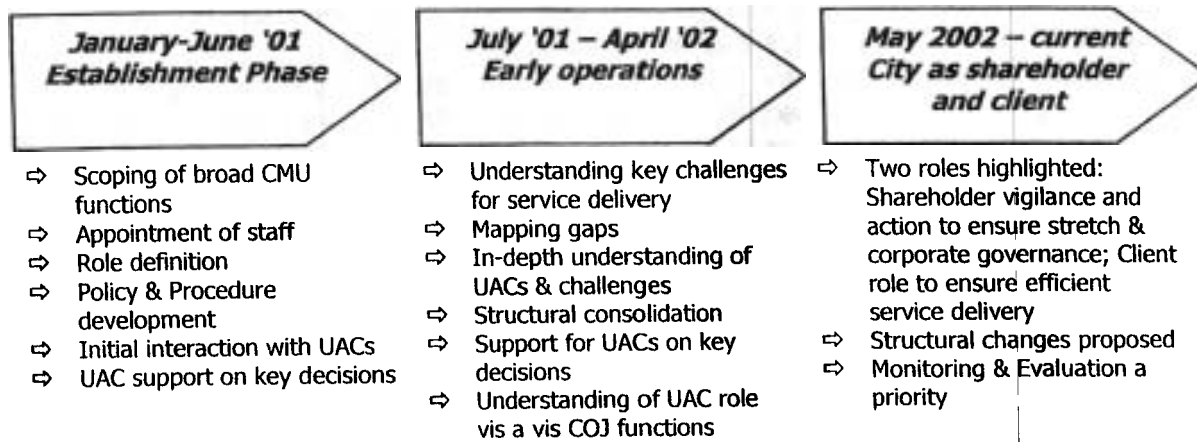
2. Objectives of the Report

Following discussions with the Executive Director - Contract Management Unit, and the Director - Technical Evaluation, the objectives of this report are to:

- ⇒ Define monitoring and evaluation in the context of the CMU's role
- ⇒ Outline the strategic objectives of monitoring and evaluation
- ⇒ Develop a monitoring and evaluation conceptual approach for the CMU
- ⇒ Identify the key components for a monitoring and evaluation system
- ⇒ Outline a potential process plan to enable MIIU assistance in the design and development of a functioning monitoring and evaluation system

3. Confirming the Role of the Contract Management Unit and the importance of a monitoring and evaluation system

The Contract Management Unit was established in the early part of 2001 and became operational in mid 2001. During the first year of the CMU's operation, its role and strategic priorities evolved in the following manner:



In summary, the evolution of the CMU has facilitated the following:

- ⇒ An enhanced understanding of the accountability framework required to operate simultaneously as both shareholder and as client;
- ⇒ The consolidation of internal systems and staff capacity. This provides a strong foundation to be able to manage the overall performance of the UACs;
- ⇒ A move away from advisory boards to fully established and accountable Boards of Directors;
- ⇒ The identification and collection of key data (financial and operational) that provides insight into the performance or non-performance of the entities. In addition, the interaction and relationships between the various entities are understood.
- ⇒ Appropriate benchmarks have been established within the City, as well as nationally and internationally;
- ⇒ Service Delivery Agreements (SDAs) have been operational for a year and UACs are in the process of developing their second business plan. The shortcomings of the SDAs have been highlighted and thought has been given to the manner in which UACs can be stretch beyond SDA compliance;

The CMU, in its first year of operation could not proactively embrace the challenge of monitoring and evaluation for the reasons mentioned above, as well due to the infancy of the UACs. The UACs focused their attention on designing and establishing basic systems to ensure their operation. In the second year of operation, a greater degree of sophistication is required to meet the challenges of ensuring the success of the corporatised units and the City of Johannesburg model.

More recently, the CMU has recognised the need for an organisational structure that recognises the need to meet shareholder, client and authority interests. The CMU will be divided into components, whose roles can be summarised as follows:

- ⇒ **The shareholder and the UACs** – the shareholder should influence policy and strategic direction of the UACs. This has the overall objective of ensuring accountability, optimisation of assets, growth and return on investment;
- ⇒ **The client and the UACs** – the client regulates and monitors the UACs through contractual relationships, business plan, financial reporting and structural institutions (such as the CMU). This role ensures that community and City interests are protected and that agreed operational and social objectives are met;
- ⇒ **The City as authority** – the City would need to determine policies, bylaws and tariffs, as well as issue licenses in order to ensure legislative compliance, sustainable service delivery, affordable tariffs and overall accountability;

The recognition of each of these roles emphasises the need to monitor and evaluate the overall performance of the UACs. Monitoring and evaluation will have a different meaning and purpose, and take on a different form depending on the role that the City exercises (client, shareholder & authority).

The need to build a monitoring and evaluation system that not only explicitly recognizes these different roles, but is actually based on them, is critical to ensure it meets its purpose as well as protecting the management of entities from confusing and conflicting requests and analysis. In other words, what is monitored, how it is monitored and what the results will be used for must be worked out within the above framework before the system is launched. This will ensure that conflicts are resolved within the City and entity management does not get confused or prejudiced.

4. Current Status of Monitoring and Evaluation within the CMU

Monitoring and Evaluation within the City of Johannesburg has, as yet, not evolved into a sophisticated process that takes cognisance of the various roles and forms within the Monitoring and Evaluation Process. From the interviews conducted with the Contract Management Unit, it is evident that the following status quo exists within the City and its entities:

- ⇒ No policy exists to set the framework for monitoring and evaluation within the City
- ⇒ The City is in the early stages of distinguishing between the various roles of client, authority and shareholder. For this reason, the manner in which these various roles impact on the monitoring & evaluation processes and mechanisms has not been thought through
- ⇒ Baseline monitoring takes place within the City, and in accordance with the standards that are set down in the Service Delivery Agreements. The process of drafting and revising SDAs is not a dynamic process, is not based on comparative and does not encourage innovation and change objectives
- ⇒ "Softer" issues such as corporate governance, employment equity, human resources & labour relations and environmental issues are not actively monitored by the City. Furthermore there is no ability to monitor thematic issues (e.g. HIV/AIDS programs)

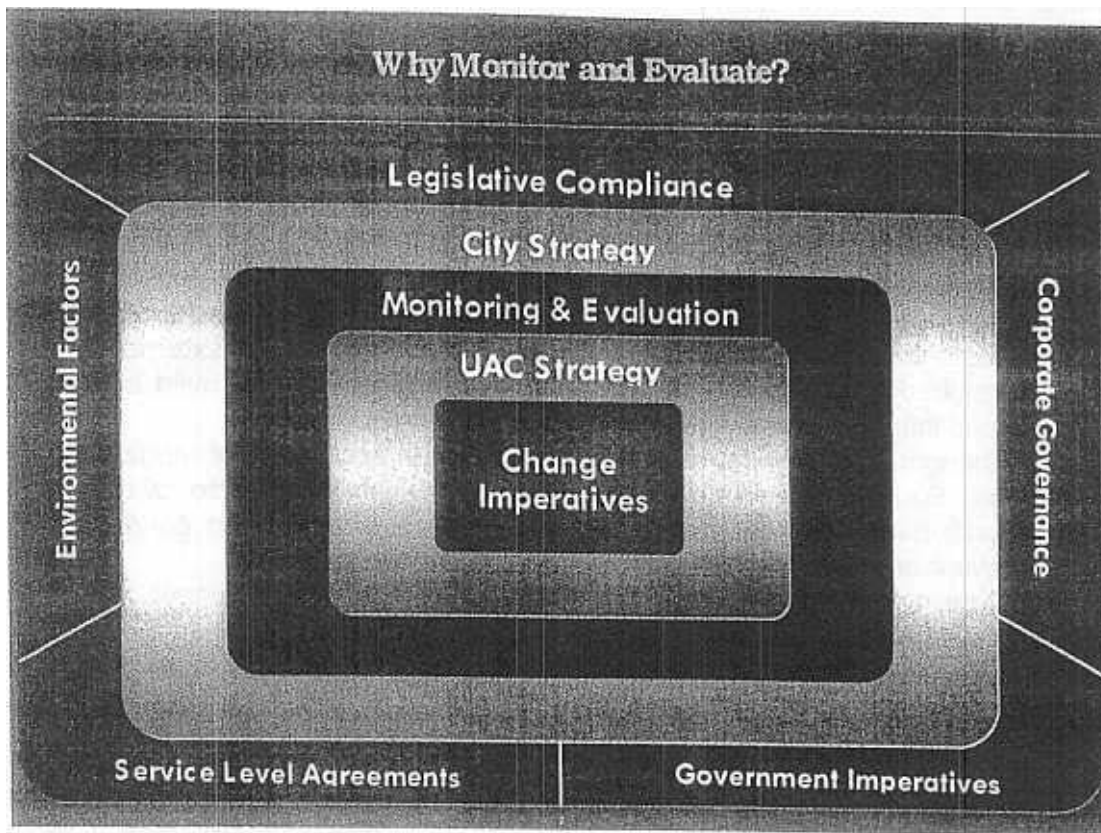
and/or issues and programs related to once-off events (e.g. the preparation plans for the World Summit on Sustainable Development).

- ⇒ A formalised monitoring process does not exist and comparisons between UACs is not managed in a structured and proactive manner.
- ⇒ A need for both financial and operational evaluation is required, however neither is currently being performed at present. From the interviews conducted with the ED and the various directors within the CMU, it was emphasised that the focus of an initial monitoring and evaluation tool should be on operational as opposed to financial evaluation (but not exclusively).
- ⇒ Current staffing arrangements within the CMU would not facilitate monitoring and evaluation to be conducted by City resources alone. The use of external advisors will be required and capacity amongst CMU staff will need to be build in order to oversee and influence the monitoring and evaluation mechanisms.
- ⇒ Limited thought has been given to the extent, depth and scope of monitoring and evaluation. Such decisions will be required from the Executive Director of the CMU.
- ⇒ No international studies on monitoring and evaluation have been conducted nor have relevant benchmarks been identified.
- ⇒ There is an urgent need to look specifically at contract management monitoring regarding management contracts in Johannesburg Water.
- ⇒ Current forms of monitoring and evaluation do not distinguish between compliance and best practice.

Monitoring and evaluation is not linked to the overall strategy and policy of the City and the current process is primarily passive. There is a need to transform monitoring and evaluation into an active process of reappraisal and realignment following decisions regarding the data that has been elicited through the monitoring process.

5. Why Monitor and Evaluate?

Organisations monitor and evaluate the performance of departments, subsidiaries or entities for a variety of reasons. Such reasons include the need to ensure at minimum, compliance with legislation and Service Level Agreement requirements. However other issues such as the need to promote consistency, deliver on the overall objectives of government, promote corporate governance and respond to a number of environmental factors are other reasons. Monitoring and evaluation should also promote the overall objectives of the City and should foster change in the UACs.



6. Monitoring and Evaluation

6.1 Defining Monitoring and Evaluation

The terms Monitoring and Evaluation are often used interchangeably. It will be important to distinguish between these concepts in order to ensure that the function of each is well understood. Four broad functions should be understood, including:

- ⇒ **Monitoring compliance** – this means that the organisation “checks” whether an entity has in fact complied with a particular standard or target (the standard / target can either be legislated, contracted or agreed to). This is the most basic form of performance monitoring that can take place within an organisation and usually takes the form of efficiency measurement (i.e. did something that should have happened happen). It is specific to the entity being monitored although the actual metric may be common to more than one entity (e.g. did the entity submit an employment equity plan?);
- ⇒ **Monitoring best practice** – this too, involves “checking” whether an organisation meets certain objectives. In this instance, however, it involves comparative checking (within and between entities) for best practice issues, as opposed to basic compliance to legislation or agreements. “Best practice” alludes to the fact that the monitoring, in addition to being comparative, focuses on a method and process of meeting efficiency targets (the “how”) and may be linked to the impact of the

particular actions/compliance being measured (e.g. all ten entities submitted an employment equity plan but one had greater success in transforming its demographic profile than the others and therefore the type of actions become important to look at in order to generate best practice)

- ⇒ **Evaluating compliance** – evaluation entails an assessment of the degree to which an entity has complied with legislation or agreed on standards, the possible reasons for the degree of compliance and most importantly, the impact of compliance i.e. standards or targets may have been achieved without the purpose / aims of the standards being achieved.
- ⇒ **Evaluating best practice** – identification of best practice through assessing the efficiency of methodology in these in those areas where UACs have a common objective or task (e.g. developing a business plan). The efficiency measures and respective impact would be correlated and in those areas where there has been the greatest impact, studies could be undertaken to assess what generic lessons can be learnt from the methodology used to create the impact.

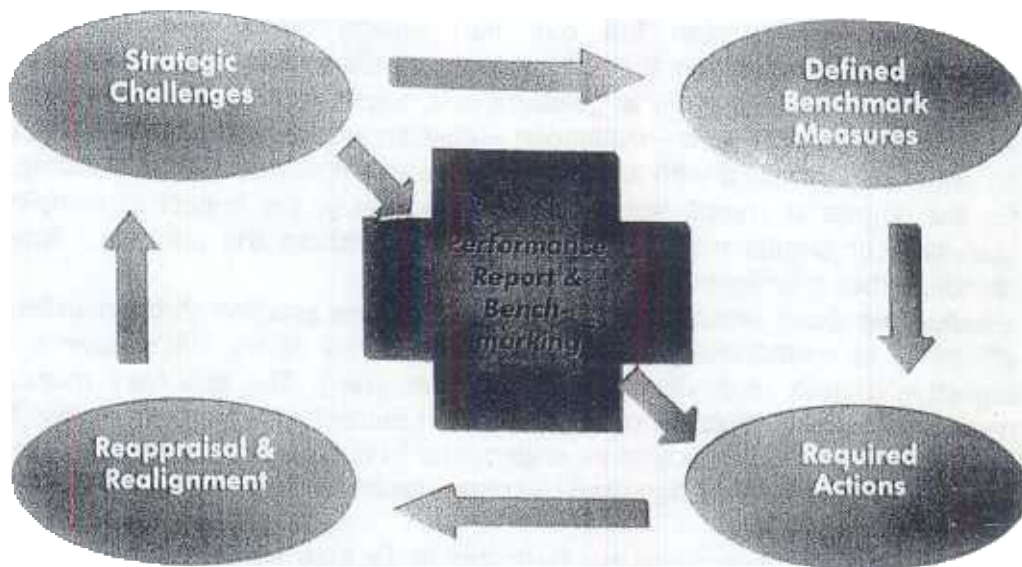
The above-mentioned definitions are illustrated in the matrix below:

	Compliance	Best Practice
Monitoring (measurement)	Did they do it? (Service Delivery Agreement)	How did they do it? How well did they do it with reference to impact and benchmarks (International or other entity benchmarking)?
Evaluation (Analysis)	To what degree did it work? What impact did it have?	Did it work well (impact)? What can be learnt for future work and/or other entities?

In performing an assessment of the depth and scope and impact of compliance or best practice, performance weightings will need to be set. Such weightings and criteria have limited value unless benchmarks are defined for the organisation. Compliance frameworks do not “stretch” organizations and therefore it is imperative for organisations to define benchmarks in order to ensure that comparisons to like organisations can be performed. This in turn allows organisations to approach “measurement” in terms of both the manner in which benchmarks heighten efficiency and the overall impact that this has on organisations.

It is imperative to consider each of these dimensions in the measurement process in order to ensure that the organisation is not measuring for the sake of measuring and to ensure that measurement is rather informed by the organisations strategic priorities.

This process is illustrated as follows




6.2 Narrowing the definition of Monitoring and Evaluation


Monitoring and Evaluation, within the context of the City requires that a more refined definition exist. In particular the definition of monitoring and evaluation will need to be narrowed according to the various roles that the City plays, as well as the type of monitoring and evaluation that takes place:


- ⇒ **Roles** – the manner in which performance is monitored and evaluated depends on the particular role that is played in the City. It was earlier outlined that the City would play a shareholder, client and authority role. Each of these roles is based on a differing set of interests. For example, the City as client is primarily concerned with the level of service delivery to communities. Monitoring and evaluation in their eyes would focus on the scope and quality of services rendered to such communities. However, the City as shareholder, will focus on ensuring growth and return on investment. This may require different monitoring methods to that of the City as client. As an example of this one need look no further than the four quadrants of the “balanced scorecard” methodology – the City as client will be interested in the “customer” quadrant and the City as Shareholder/investor will be interested in the “financial” quadrant. Therefore, any monitoring and evaluation system will therefore need to address the various roles or alternatively define the scope of monitoring mechanisms in terms of such roles.
- ⇒ **Type of evaluation** – the monitoring and evaluation tool will differ in emphasis depending on the type of monitoring and evaluation that is being undertaken. More specifically the monitoring and evaluation of financial performance will take a different form to the monitoring and evaluation of technical / operational performance.

In summary, it will be important to define the extent and scope of monitoring based on the various roles, as well as forms of monitoring that can take place.

	Compliance	Best Practice
Monitoring (measurement)	Did they do it? (Service Delivery Agreement)	How did they do it? How well did they do it with reference to impact and benchmarks (International or other entity benchmarking)?
Evaluation (Analysis)	To what degree did it work? What impact did it have?	Did it work well (impact)? What can be learnt for future work and/or other entities?


Shareholder


Client


Authority

7. Principled Approach to Monitoring and Evaluation

In order to develop appropriate monitoring and evaluation processes and mechanisms that meet the overall city objectives, it will be necessary to generate principles against which measurement items (metrics), processes, and systems can be screened.

7.1 Principles

Such principles might include the following:

- ⇒ **Consistency** – a consistent approach should be adopted with the UACs. This does not necessarily mean that the nature of the measures will be identical, but rather that a baseline set of measures are applied consistently across the UACs particularly in those areas where they operate in a common way in order to ensure economies of scale and encourage benchmarking.
- ⇒ **Transparency, Participation and Credibility** – information disclosure regarding the objectives, process, substantive measures and realignment following monitoring and evaluation will be critical. The degree of transparency in the process will heighten the buy-in from the UACs and has the potential of limiting manipulation. The participation of the UACs in the process should be encouraged. UAC participation should be considered early in the process in order to heighten buy-in

*UAC
propose*

and reduce suspicion and the perception of a "big brother" approach. This means that when establishing and implementing the system, effective stakeholder involvement must be encouraged and UAC personnel should participate during monitoring and evaluation activities. Furthermore, it is recommended that the system and processes are coordinated from above while practical implementation occurs from below.

- ⇒ **Relevance** – any number of measurement processes can be established, however, measurement and evaluation should bear direct relevance to the overall strategic objectives and priorities of the organization (i.e. there must be a good reason and this reason should be easily understood.). Initially prioritisation in terms of core measures will need to occur and the rest of the measures should be phased in over time depending on capacity.
- ⇒ **Context specific**– it is recognised that a number of different organisations exist and therefore different criteria and weighting will apply in the monitoring and evaluation process. Appropriate mechanisms to ensure matching forms of measurement should be sought in order to ensure that like comparisons are made and that the organisational context is recognized.
- ⇒ **Integrated approach** – consideration needs to be given to the linkages between the data that is collected. In particular linkages between institutional, corporate governance and human performance systems should be considered. Care should be taken to achieve a balance between data for incentives and data for "punitive measures".
- ⇒ **Follow-through / impact**– once data has been received, a process of reevaluation and realignment of UAC activities may be required. It is important to move away from a passive monitoring & evaluation process to an active realignment of strategy and performance through the data & benchmarks that are revealed. If no impact or change occurs as a result of the measurement, the system will lose credibility. In the event that there is no legislative requirement and/or related reward, no incentive will exist to realign the organisation's performance based on the data. In summary, if there is no potential impact as a result of the evaluation, measurement should be avoided.
- ⇒ **Practical** – monitoring and evaluation processes have the potential to be rigorous and complicated. It is therefore argued that a sequenced and practical approach be taken in a thematic and cross cutting manner. This will heighten the manageability of the system in terms of time and resource constraints. Periodic, in addition to continuous data should be defined in order to reduce the complexity of the system.
- ⇒ **Cost effective** – A monitoring and evaluation system can be extremely costly to implement in terms of IT, use of consultants and personnel time (in CMU and entities). Therefore, objectives, indicators and systems should be screened (cost vs value).
- ⇒ **Implementing the system** - there is broad recognition that the system cannot be designed or implemented using City resources alone. The nature and scope of external support should be defined and internal capacity built to manage such external resources. In addition, existing systems should be "piggy-backed" to the greatest degree possible.
- ⇒ **Timeous** – data should be collected timeously in order to ensure that it bears relevance to the current context.

8. Conceptual Approach for CMU Monitoring and Evaluation Model

8.1 Aligning approach to roles and structure

It was previously outlined that the City acts as shareholder, client and authority. This has a direct impact on the conceptual approach to the CMU Monitoring and Evaluation model. The contradictions between these various roles are of sufficient substance to warrant separate approaches to monitoring and evaluation but establishing three separate monitoring and evaluation units, is not a desirable objective. Avoiding duplication and ensuring economies of scale is possible within a single system provided it recognizes the essential split between client and shareholder. Despite the different interests and emphases, it will be important to find mechanisms to ensure that the monitoring and evaluation system allows for a balance between these interests (split must occur in decision making and evaluation in particular i.e. how the metrics are chosen and the perspective from which they are evaluated).

8.2 Baseline measurement versus value-add (thematic)

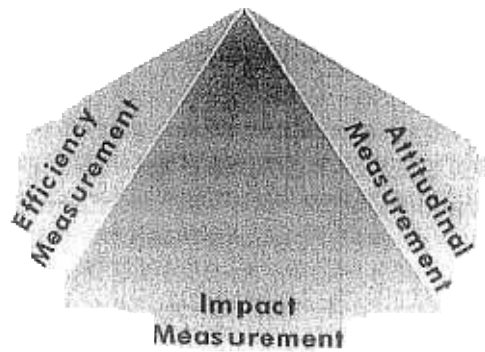
Baseline (compliance) versus periodic best practice measurement is a viable method to ensure that a simple, clear system is not obscured by thematic or time based (topical issues). The basic system should yield consistent data on a regular basis. This does not however mean that all data needs to be obtained at the same time. Rather a more focused data gathering process on a thematic basis could be collected and evaluated according to priorities and irregularly. This could take the form of a conscious decision to dedicate extra resources to a focused study on cross-cutting issues (e.g. law enforcement and crime prevention) once a year.

Furthermore, while monitoring will be required on an ongoing basis in order to ensure that the "basics" are being performed according to appropriate standards, detailed evaluation (trend analysis etc) can occur on a periodic basis. This will allow for specialised "analyst" teams to work periodically with various entities to evaluate the entities according to key measures.

8.3 Measurement Methods

Three types of measurement exist, namely:

- ⇒ **Efficiency measures** – did something happen when it was supposed to?
- ⇒ **Impact measures** – did the measurement achieve what it was supposed to achieve – did something change?
- ⇒ **Attitudinal measures** – qualitative (often survey or focused group based) methods of either looking at impact (e.g. culture change)?



These three measurement methods can operate on an integrated or standalone basis as illustrated below. Ideally an integrated approach to measurement should be taken. The implementation of such an integrated approach may however be evolutionary. The City will need to consider the measurement methods it wishes to apply in the short, medium and long term.

8.4 The Monitoring and Evaluation Model

A broad outline of a Monitoring and Evaluation Model for the CMU has been tabulated below and proposes that six broad steps occur in the Monitoring and Evaluation process. The table sets out the process steps, sub steps to ensure action and accountabilities to ensure the functioning of the model. This full process would take place annually but the first (decision-making stage) would obviously take up less and less time as the system sophisticated and evolved.

Process step		Key actions	Accountability
1	Preliminary identification of monitoring indicators or "line items"	<ul style="list-style-type: none"> ⇒ Identify what you can measure? ⇒ For each metric then decide: <ul style="list-style-type: none"> ⇒ Decide how you can measure it? ⇒ Confirm why you would measure it? ⇒ Establish regularity ("how often you would measure it?") 	Contract Management Unit Consultants
2	Decision Making	<ul style="list-style-type: none"> ⇒ Allow the City manager, Mayoral Committee member and CMU to separately establish from above mentioned itemised list (they can add), what they want to measure. This would include the thematic measurement issue(s). 	Client & CMU Shareholder / Investor & CMU
3	Measure	<ul style="list-style-type: none"> ⇒ Undertake various forms of measurement (monitoring) 	UAC personnel, CMU, Consultants
4	Preliminary analysis	<ul style="list-style-type: none"> ⇒ Perform analysis of data elicited from the collection process ⇒ Ensure that relevance of data is taken into consideration 	Contract Management Unit Consultants
5	Evaluation	<ul style="list-style-type: none"> ⇒ Undertake separate workshop processes to brainstorm meaning of data revealed in analysis phase ⇒ Make comparisons where appropriate ⇒ Evaluate according to efficiency, impact and attitude 	CMU & Client Client Shareholder / Investor & CMU
6	Realignment and feedback into indicator decisions	<ul style="list-style-type: none"> ⇒ Based on the evaluation process, it will be necessary to realign the "line items" or indicators decided on in the initial phase ⇒ This informs decision-making for next measurement cycle (see step 1) 	Contract Management Unit with separate mandates from client and shareholder ¹

Note - The first year of operation will focus on general implementation of the model. The complexity of the model, however, rests in the regularity of the monitoring and evaluation process at the level of detail.

Note – monitoring and evaluation can be split and do not have to follow immediately

Note – regular data will be presented in a raw form to roleplayers

Note – When making decisions regarding the regularity of data collection/monitoring the following should be considered:

¹ Sec 2 – Decision Making

- ⇒ **Systems requirements** – a detailed schedule of the various measures and indicators ("line items") should be consolidated, together with a summary of "how", "how often" and "why" the data should be collected. This is illustrated graphically in Appendix B.
- ⇒ **Reporting mechanisms** - what system will be put in place to understand the regularity of reporting on each line item to the relevant stakeholder. A proposed approach to this reporting system is illustrated as Appendix C.

8.5 Process for establishing monitoring and evaluation model

Using the table above as a foundation, it is obvious that the first three process steps will need to be actioned in order to establish the monitoring and evaluation model. These process steps (not necessarily sequential – a number of tasks could run in parallel)

Monitoring & Evaluation Process		Steps to establish model	Role Players
1	Investigation of Possible International Models	⇒ Arrange for overseas visit to relevant municipalities internationally with similar service delivery models and an established M & E system	Council CMU
2	Preliminary identification of monitoring "line items"	⇒ Brainstorm potential measurement categories (finance, operational / technical, corporate governance, human resources, environmental) ⇒ Conduct workshops to elicit potential measures under each of these categories ("line items") ⇒ Identify consultants that could assist in the process ⇒ Narrow down "line items" to specific UAC contexts ⇒ Understand what should be consistently applied across UACs and what should be specific to UAC context	Contract Management Unit Consultants City Manager UACs
3	Decision Making	⇒ Conduct workshop process, using the "line items" as a proposal for monitoring & evaluation measures ⇒ Prioritise the list in perceived order of importance ⇒ Make amendments or additions where required ⇒ Decide on items to be consistently applied and those that should be specifically applied to UACs	Consultant (as facilitator) Client (City Manager) Shareholder / Investor – (Mayoral Committee Member)
4	System Design	⇒ Brainstorm data collection methods ⇒ Scope information technology	CMU Consultants

		requirements ⇒ Scope personnel requirements (internal & external resources) ⇒ Decide on how data will be collated ⇒ Establish mechanisms for data categorization	
3	System Establishment	⇒ Engage consultants ⇒ Develop an operational plan outlining the general requirements for system establishment (IT and personnel resources) ⇒ Develop a corresponding budget to support the operational plan ⇒ Share information with UACs, City and shareholder for amendments / additions	Contract Management Unit

8.6 Key challenges in implementing the Model

In order to implement the model, the following key challenges should be anticipated:

- ⇒ **Ownership of the tool / system** - where the "Monitoring and Evaluation" system will be housed should be considered. This should particularly be considered with respect to the various roles (shareholder, client & authority), as well as the forms of monitoring and evaluation (technical & financial);
- ⇒ **Resources** – monitoring and evaluation is a time consuming and often labour intensive process.
- ⇒ **Budget** - the establishment and maintenance costs of the system should be considered. Budget will need to be secured in order to ensure that the system is effectively implemented and sustained;
- ⇒ **Evolution of the Model** – decisions will be required regarding what is to be evaluated, how, when and how often. It may be decided that a phased in approach is more appropriate to ensure the longer term success and sustainability of the model;

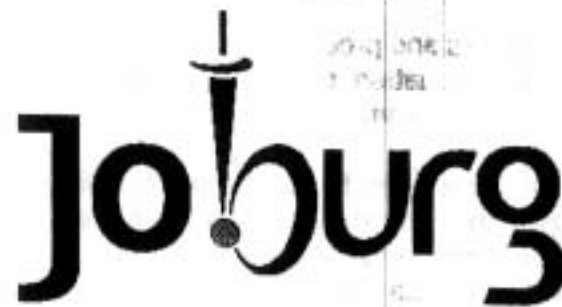
9. Recommended Route Forward

Section 8 (8.4 and 8.5) have outlined a proposed model as well as the steps required to establish the system to the point of implementation. It will be necessary for the following issues to be addressed in order to ensure that such steps are actioned:

- ⇒ Broad input regarding the proposed model and approach
- ⇒ Definition of key stakeholders and the manner in which they will be involved in the systems establishment
- ⇒ Development of project plan to ensure that the recommended process steps for establishing the system (as per section 8.5) are implemented

- ⇒ Understanding of the resource requirements (internal and external) to assist in the systems establishment
 - ⇒ Appointment of external assistance (as and when required)
 - ⇒ Estimate and secure budget to embark on the project
-

APPENDIX A



CONTRACT MANAGEMENT UNIT

INTERVIEW SCHEDULE

1. What are the key challenges for your function within the Contract Management Unit?

The current challenges faced by the Contract Management Unit are summarised as follows:

- ⇒ There are no systems in place to monitoring performance
- ⇒ There are no Service Delivery Agreements which could be used as a foundation for monitoring
- ⇒ There is a lack of policies and procedures
- ⇒ The monitoring and evaluation cycle and interdependencies are not understood. SDA's need to be renegotiated, which puts the monitoring process back a couple of months.
- ⇒ SDAs need to be developed further into an effective way of monitoring and evaluating. As they currently stand – they are merely legal documents and will not prove to be useful in terms a monitoring tool
- ⇒ Accurate and consistent data is required in order to conduct proper monitoring and evaluation
- ⇒ An understanding must be fostered of how the CMU should play a role as a shareholder and regulatory authority.
- ⇒ There is a lack of monitoring policy
 - How monitoring will occur?
 - Elements to be monitored?
- ⇒ Human and financial resources to oversee the monitoring process are needed.
- ⇒ Monitoring beyond the limitations of the SDA – based on numerous complaints, e.g. flies in Dainfern. A more proactive approach is needed to anticipate what could go wrong in terms of service delivery
- ⇒ Monitoring currently takes place with respect to fairly simple KPAs. Limited attention is paid to the broader issues and impact of service delivery, such as environmental impact. A more inclusive approach to monitoring should be examined.
- ⇒ Understanding the manner in which the CMU can incorporate best practice from other cities where things have worked.
- ⇒ A monitoring and evaluation culture needs to be developed without creating friction with and between the UACs.
- ⇒ A "routine" should be developed amongst UACs in terms of the submission of data related to performance evaluation
- ⇒ How does a technical evaluation process ensure that communities experience real change in service delivery?
- ⇒ Measuring the manner in which UACs fare in terms of contractual compliance and operational performance with respect to outsourced contracts.
- ⇒ Ensuring that user groups are provided with appropriate support. Such support can only be structured and tailor made when there is a real understanding of what exists within the UACs
- ⇒ A key function is to manage relationships with UAC and the City and in this way it will be important to create a proper interface with UACs and manage the relationship effectively over time.

- ⇒ Safeguarding interests of the shareholder is imperative. Appropriate means to communicate the mandate and expectations of the shareholder will need to be found.
- ⇒ Changing mindsets on both sides is imperative. A move away from "business as usual" to innovation and performance enhancement should be encouraged.
- ⇒ Change management did not occur in a structured and conscious manner. Serious consideration should be given to the manner in which real corporate change is ensured
- ⇒ The CMU itself requires capacitation in terms of developing skills required to effectively monitor and evaluate performance
- ⇒ Developing a system to manage information and make comparisons between data. An adequate MIS system is imperative to draw information and lay the foundation for financial and operational evaluation. Currently, outdated and inconsistent data exists
- ⇒ Feedback mechanisms to examine and interrogate strategic initiatives do not exist and require further development

The future challenges for the Contract Management are listed below:

- ⇒ Developing appropriate mechanisms to move forward in terms of compliance
- ⇒ Ensuring that the UACs comply without CMU intervention in daily operations
- ⇒ Enhancing the CMU's ability to benchmark against other like organisations and environments.
- ⇒ Anticipating legislative changes.
- ⇒ Retaining political buy-in for the continuation of the "iGoli" model.
- ⇒ Ensuring that political and equity aspirations are met quickly within a framework of quality
- ⇒ Anticipating what will happen once the 5-year contract has been completed. Information will be required in order to make decisions
- ⇒ UACs see themselves as independent companies. The CMU is frequently bypassed since it is not seen by management as important / powerful as their independent boards - further clarity in terms of accountability, decision making is required
- ⇒ Relationship between UACs and regions is loosely defined. Regional Director ability to influence priorities should be interrogated and supported through systems
- ⇒ Utilising Joburg Connect to gather statistics that will support the overall monitoring and evaluation process
- ⇒ Ensuring optimisation for maximum of revenue (with proviso of stakeholder delivery).

2. When monitoring and evaluating performance, what will be the basis of comparison? (Investors advice, what criteria, standardisation, comparisons to each other or outside)

- ⇒ A combination of factors is required because the UACs are in a developmental phase and are very different in terms of their overall service offering
- ⇒ Similarly placed institutions in South Africa and in developing countries should be used as a basis of comparison

- ⇒ Comparisons to like-minded utilities, agencies will be appropriate
- ⇒ Investment decisions are important. Tool should allow for cost reflectivity.
- ⇒ Political feeling that there needs to be uniformity but the only real common denominator is the treatment of the client.
- ⇒ Each service is unique and individual.
- ⇒ Comparisons – look around the world, developing countries, for examples that work. Instead of trying to invent KPIs and KPAs, look at examples that are practical and acceptable and have been proven elsewhere.
- ⇒ Operational comparison – metrics are different whereas financial evaluation – metrics are the same but interpretation is different.
- ⇒ Environmental evaluation and the ability to manage the environment responsibly but differently should be factored into the monitoring process
- ⇒ Potential investors need to be looked at – anticipate criteria and build into KPIs.
- ⇒ Co-ordination and communication between UACs and planning is imperative. May monitor service provision if not co-ordinated between departments.
- ⇒ Two aspects to the evaluation of performance:
 - Internal benchmarking – simple measures, e.g. insurance – highlights problems in user group (e.g. speeding).
 - Externally
 - Globally – on whole
 - Per specific user group (i.e. against another Water Utility)
 - Problem that other municipalities do not have the same data; makes comparisons very difficult. It may be necessary to look at other national players.
 - Ideal to be compared in terms of industry, therefore different services are
- ⇒ Certain common issues such as HR and corporate governance could be compared between institutions

3. How has, or should the Contract Management Unit changed in terms of the capacity to monitor & evaluate the performance of municipal entities from the time it was established to now?

- ⇒ Effective capacity currently exists in terms of staffing complement, however further expertise will need to be built in relation to technically specific monitoring mechanisms.
- ⇒ Management of consultants in monitoring and evaluation process is critical (creative partnerships with consultants is imperative). Be careful of over reliance on consultants. These relationships need to be structured carefully to ensure the transfer of skills.
- ⇒ Statistics and economics skills are required in order to analyse data and draw conclusions
- ⇒ Project management skills are required to ensure that monitoring and evaluation occurs regularly.
- ⇒ IT skills are important to enable system on an IT basis.
- ⇒ Technical monitoring and evaluation has not been undertaken previously and limited understanding exists regarding what is involved. This may impact on resource requirements over time.

- ⇒ Insource and assure - the CMU has the capacity, but needs to be able to verify consultants work.
- ⇒ Permanent involvement of the Director is required: Technical and Operations Evaluation. Must have a matrix approach with all other functions of the CMU
- ⇒ Skills to quality assure what consultants are doing are needed.
- ⇒ Care should be taken not to duplicate efforts on monitoring to the extent that other regulators e.g. Department of Labour – Employment Equity Plan are not duplicated.

4. Do you see the role of the CMU as one which monitors compliance to standards or one that "stretches" UACs to perform beyond expectations?

- ⇒ It will be necessary to raise standards. As client and shareholder representative, the CMU needs to embrace how the stakes can be increased.
- ⇒ There is real danger in purely looking at a legal document and adopting a checklist approach to compliance. Business plan review should encourage "stretch"
- ⇒ Stretch is not merely a shareholder role. Both client and shareholder need to look at stretching the standards. City should be advised of stretch mentality in light of backlog of services e.g. Tariff issue.
- ⇒ "Stretch" areas could include:
 - National environment policy
 - OHASA provisions
 - World best practice
 - Statutes and by-laws
 - Sale and purchase agreements.
- ⇒ It will be important to look at incentives for UACs to stretch to the next level.
- ⇒ UACs have different perceptions of monitoring and evaluation and are looking at compliance alone. Mechanisms for changing this approach should be examined

5. What degree of standardisation do you require to make the monitoring and evaluation process work?

- ⇒ There is no difficulty in standardising Corporate Governance benchmarks. It is urgent for UACs to have comparative governance baseline benchmarks in place in order to enhance accountability
- ⇒ Benchmarks that satisfy investors should be examined within the context of delivery of basic services to the community at large.
- ⇒ Service delivery agreements currently include the provision of base line information such as:
 - Obligation to deliver business plans
 - IT compatibility
 - Shared services
 - Insurance
 - Asset management
 - Procurement policies
 - Human resources

- ⇒ The Service Delivery Agreements do not include issues such as:
 - HR
 - Finance
 - Strategy
 - Comp Governance
 - Socio-economic
 - Technical/operational
 - (Be careful not to over standardize to the point that no value is created).
- ⇒ Areas of evaluation should include:
 - Finance
 - Operations
 - Institute and governance mechanisms
 - Human Resources
 - Service Standards
 - Capital Investment
 - Tariffs – only some degree of standardisation – requires different methodology.
 - Standardisation can only occur within similar industries
 - One tool that is applicable in South Africa in a particular industry, e.g. Water.
- ⇒ In the field of technical evaluation, it will be difficult to standardise benchmarks due to the diverse nature of the variables
 - Customise evaluation based on its own merits
 - Different entities have different mandates and therefore very unique issues.
 - Unique problems associated with different entities.
 - Finance – there are standard benchmarks at a high level – solvency vs liquidity, month to month, year to year and year on year. Build up to key ratios.
 - Matrices are the same but the evaluation would be different.

6. How fast do you think the implementation process can occur? (Roll out to the UACs)

- ⇒ The development of Monitoring policy and strategy should precede the actual system
- ⇒ Phase 1
 - Buy-in from UACs in terms of CMU role is critical. Must be a partnership approach.
 - Starting point – compliance with SDAs and measurement against reports but need to be careful of difference between fact and reports – 3-6 months.
- ⇒ Phase 2
 - Test whether SDA equals measurements – correct and realistic.
 - Then set benchmarks – build understanding of what is required in context of consumer.
 - Future – look at stretch beyond these benchmarks.
- ⇒ Basic systems will need to be put in place in order to extract KPIs. The monitoring system can then be built around the KPIs. It should be recognised that the SDA is

not a monitoring system. It is envisioned that a basic system could be in place by June 2003

- ⇒ Stretch targets will probably only be able to be introduced in the 2003/4 Financial Year
- ⇒ The Implementation of the tool should follow a participative and team-based approach. An inclusive approach will take approximately 6 months to complete, ensure the inclusion of the views of UACs, NER and DWAF
- ⇒ Build in process of obtaining challenges from UACs and over time to build the stretch relationship.
- ⇒ Run project in streams (by next financial year – should be running effectively):
 - Operational / Technical
 - Finance
 - Management
 - Strategic information

7. Do you think that corporate governance should be incentivised? How? (Institutionalise competition between the UACs)

- ⇒ There is merit in creating “flagship” UACs however effort should be made to ensure that comparisons are like with like.
- ⇒ Services provided are different and systems will have to take into consideration that even though issues of corporate governance can be standardised, they are different by virtue of service offering.
- ⇒ Healthy competition should be encouraged– important in terms of best performance
- ⇒ Look at mechanisms for incentives – what would they be – recognition from Mayor, bonuses for senior staff, better budget, additional grant, disincentives (capital cuts).
- ⇒ Need to be cautious of creating “cinderellas”. There are huge discrepancies in terms of budget and staffing complements
- ⇒ CMU should play a communication role to heighten awareness and encourage best practice.
- ⇒ Potential reward:
 - Balance of revenue to go into balance sheet – strengthen balance sheet.
 - Key executives – performance bonuses and then down to rest of staff.

8. Which areas / functions do you think minimum standards and common measures should apply to?

- ⇒ Minimum standards to be in place across all functions. If the objective is to aim for overall objective of efficiency in terms of private sector – this is definitely going to be necessary.

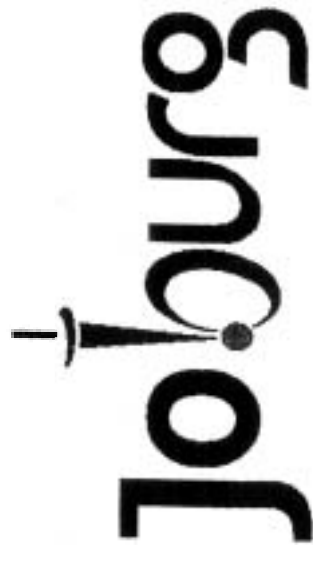
9. What trade-offs may need to be made when evaluating performance (particularly in relation to the performance requirements of "shareholder" and "client")?

- ⇒ The dilemma exists that if you want to produce more, additional budget will be required. The challenge will be to balance budget and performance
- ⇒ It will be necessary to induce creativity e.g. labour issues in terms of 3 year no retrenchment guarantee.
- ⇒ CMU has however already instituted the "doing more for less" culture
- ⇒ Trade-offs may be around categories e.g. BEE, source delivery trade offs.
- ⇒ Tariffs – improved performance. Depends on how it is couched.
- ⇒ HR – Affirmative action/Employment equity may not be met.
- ⇒ Financial:
 - In terms of tariffs
 - Certain expectations – balance budget in terms of tariff related services.
 - Ultimately all trade offs in terms of finance, but also strategic.

10. General Comments

- ⇒ It is important to "pull the UACs along". Ensure that UACs are involved in identifying shortfalls, challenges. Ensure inclusivity in terms of an approach.
- ⇒ The CMU will need to guard against perceptions of a "big brother" and "watch dog" approach. CMU should be positioned as a support structure and not a threat.
- ⇒ Monitoring and evaluation will be time consuming and costly
- ⇒ Serious consideration of what should be on the monitoring and evaluation agenda should be considered in order to avoid monitor issues for the sake of monitoring.
- ⇒ Sense of urgency in terms of technical tool – need to begin development urgently
- ⇒ Important process considerations should be borne in mind:
 - How to set up tool
 - Ongoing measurements
 - Involvement of the regions
 - Buy-in from MDs
- ⇒ CMU to be positioned correctly for monitoring and evaluation to work. Recognition by Council and UACs is imperative.
- ⇒ In the short term, objective should be "clean-up" data, establish basic systems and procedures. In the mid-term, City should aim for reengineering and optimising efficiency. Long term objectives could include ensuring growth and the development of strategic alliances and mergers

APPENDIX B

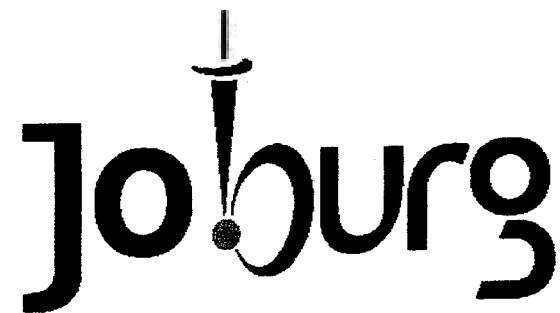


CONTRACT MANAGEMENT UNIT SYSTEMS REQUIREMENTS

SYSTEMS SCHEDULE

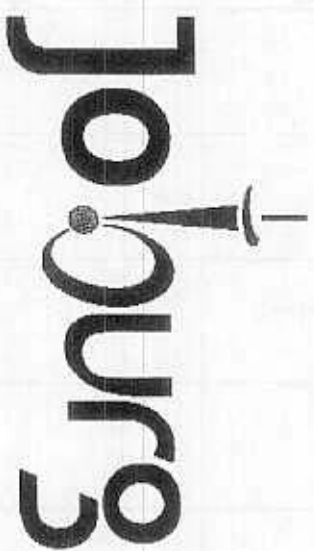
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APPENDIX C



CONTRACT MANAGEMENT UNIT REPORTING REQUIREMENTS

APPENDIX C



CONTRACT MANAGEMENT UNIT REPORTING REQUIREMENTS